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Shaping the Bureau or Maximising the Budget?

Rational choice, historical institutionalism and bureaucratic reform in New Zealand

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Abstract

In early 1997, the recently formed National/New Zealand First coalition government embarked upon an Employment Strategy which was to generate extensive structural upheaval in the New Zealand public service. In short order, the largest government department was dismantled, a second was much reduced, and three new bureaucracies were created.

This dissertation searches for the causes of the trajectory and outcomes of those institutional reforms. Drawing on both qualitative and quantitative data, the thesis explores the motives of the senior politicians and officials involved in the Employment Strategy, tests the relative influence of those actors over decision-making, and examines the bearing which institutional arrangements within the political executive had on the course and consequences of the Employment Strategy.

Two theoretical approaches are used to make sense of the data. The rational choice case for bureaucratic change proposes that the institutional shape of the public sector is a function of instrumental bureaucratic conduct. Specifically, budget-maximisation is assumed to result in an increasing number of government departments, each consuming an expanding budget and producing excess output.

The orthodox economic model provides a poor explanation of the Employment Strategy. The bureau-shaping model (Dunleavy, 1991), on the other hand, which employs a revised rational choice maximand to explain the influence of officials on bureaucratic reform, has more explanatory potential. The assumption that senior officials are motivated to shape the institutional parameters of their departments, rather than to maximise budgets, generates valuable insights regarding the structural revisions in question. Nonetheless, a bureau-shaping analysis cannot explain the variation in officials' preferences which marked the Employment Strategy, or the influence which Cabinet ministers had on the resolution of key policy debates.

Those limitations point to the value of the second theoretical tradition used in the study. Historical institutionalism combines human agency and institutional context in a single account of political outcomes. The analysis in this thesis accommodates optimising

behaviour, but explains it in the context of the institutions of the political executive which mediated decision-making during the Employment Strategy.

However, neither rational choice nor historical institutionalism can fully account for the process and institutional results of the Employment Strategy. The thesis advocates a rapprochement between the proponents of individual agency and those who emphasise structural context and historical particularity. For the first time, this dissertation extends the existing new institutionalist literature and articulates a theoretical pathway to that end.

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Acronyms

| | |
|-------|--|
| ACT | Association of Consumers and Tax Payers |
| DoL | Department of Labour |
| DSW | Department of Social Welfare |
| EISG | Employment Integration Steering Group |
| GDP | Gross domestic product |
| GF | Government Formation |
| GST | Goods and Services Tax |
| G5 | <i>ad hoc</i> Ministerial Committee on Employment and Welfare Reform |
| MMP | Mixed-member proportional |
| MP | Member of Parliament |
| NZ | New Zealand |
| NZFWO | New Zealand Federation of Voluntary Welfare Organisations |
| NZPD | New Zealand Parliamentary Debates |
| ODWG | Organisational Design Working Group |
| OECD | Organisation for Economic Co-operation and Development |

Chapter 1 - Introduction

1.1 The scope and focus of the research project

Late in December 1998 the Hon. Roger Sowry, Minister of Social Services, Work and Income in New Zealand's National party-led minority government, was asked about his plans for structural reform in the welfare sector. In his frank response Sowry indicated that he had:

... spent two years trying to get rid of the Department of Social Welfare. If I have my way, there won't be a Department of Social Welfare by this time next year. It will not exist. There will be a Ministry of Strategic Social Policy, and there will be a stand-alone Department of Work and Income, and a stand-alone Children, Young Persons and their Families Service, which will be renamed as a new agency. They can each have their own ministers, and there will be a Minister of Social Policy. But we won't have a Department of Social Welfare. It will be wonderful (Sowry, interview, 1998).¹

Ten months later, each of Roger Sowry's predictions on matters of organisational design had been borne out. Between February 1997 and October 1999 the largest department in the New Zealand public service (the Department of Social Welfare (DSW)) was dismantled, a second (the Department of Labour (DoL)) was significantly reconfigured, and three new agencies were created (the Ministry of Social Policy, and the departments of Work and Income, and Child, Youth and Family Services).² Moreover, paralleling the substantial machinery of government reforms were comprehensive policy revisions concerning the provision of income support, in which an incentivised Community Wage replaced a host of other unemployment-related benefits.

Those institutional and policy reforms were outcomes of the National/New Zealand First coalition's Employment Strategy, a fascinating and often fraught process which was

¹ Sowry had been the Minister of Social Welfare in the National/New Zealand First coalition government which had collapsed four months earlier on 18 August 1998.

² For the benefit of those who may not be familiar with New Zealand's public service landscape, minimal use is made of acronyms throughout the thesis. They are used for the two principal departments, the DoL and the DSW, because of the frequency with which those agencies are referred to, and are also used to refer to agencies or working groups which have particularly long formal titles.

characterised by one of its central actors as the ‘most dreadful’ exercise in policy formation he had ever been party to (Kirk, interview, 1998). At a descriptive level, the Employment Strategy is a ripping good public policy yarn, replete with episodes of political intrigue and bureaucratic turf-protection. The story is all the more engrossing because it involved a coalition administration formed following New Zealand’s first experience of its new mixed-member proportional (MMP) electoral system. With a long history of single-party majority government, the political system lacked the web of institutional arrangements needed to support multi-party government, in which context a case-study of what was arguably the National/New Zealand First coalition’s most ambitious undertaking affords a number of insights into the dynamics of policy design and implementation under coalition conditions.

For scholars of public policy, there are at least two other categories into which the plethora of research opportunities provided by the Employment Strategy fall. First, the policy innovations which were pursued in tandem with the organisational changes merit attention in their own right. The advent of the Community Wage represented a political victory for the government’s Minister of Social Welfare, and constituted a fundamental overhaul of the structure of the income support system. From a comparative point of view, the introduction of the ‘work-for-the-dole’ scheme, supported by an exacting régime of sanctions intended to encourage the move from welfare to work, invited comparisons with programmes of a similar nature functioning in some American and Western European jurisdictions.

This dissertation, however, is most intimately concerned with the second cluster of issues, which concerned revisions to the machinery of government. Institutional change has been one of the defining features of New Zealand’s experience of public sector reform; by the late 1990s, the organisational separation of policy from operations had been pursued with such diligence that there remained few departments which any longer housed both advisory and implementation responsibilities. In this respect it was ironic that at the very time the State Services Commissioner was enjoining policy-makers to put to one side the ‘culture ... in which we reach for the restructuring option instinctively, regardless of the nature of the problem we are trying to solve’ (State Services Commission, 1998a, p. 8), the National/New Zealand First government was driving through one of the most ambitious programmes of structural change attempted in contemporary New Zealand political history.

The institutional developments emerged from robust exchanges within and between political and bureaucratic communities regarding a raft of matters, including programme design, governance issues, and the optimal arrangements for sourcing policy advice. The truly critical debate, however, was the one which took place concerning the institutional configuration within which employment and income support services might most effectively be delivered. The resolution of that issue, which was substantially driven by a prior decision to extend the provisions of the administration's employment policy to all working-age beneficiaries, was the principal catalyst for the extensive changes to the departmental sector which rolled out of the Employment Strategy.

In that broad context, the specific question to which this dissertation is directed is: What were the determinants of the trajectory and institutional outcomes of the Employment Strategy? A cursory glance over the events in question would suggest that a short answer to that question lay on p. 25 of the government's Coalition Agreement, which presaged the prospect of the integration of a number of different agencies and resources which were then responsible for the administration of income support and employment services (see Appendix 2). The policy and organisational settings which finally applied, however, were far more comprehensive than those signalled in the Coalition Agreement. This research is directed at finding out why that was so. Given the complex nature of public policy-making arrangements, a response to the principal research question is likely to be scattered across a variety of discrete institutional locations. For instance, the preferences of ministers, the policies of the government's respective partners, and the agency of senior bureaucrats suggest themselves as possible determinants of the events studied in the thesis. However, guided by Simon's (1957) insights regarding the bounded nature of knowledge, the study focuses on three specific facets of the Employment Strategy:

1. the motives of senior bureaucrats in the DoL and the DSW;
2. the degree to which the institutional outcomes reflected the influence of ministers and officials respectively; and
3. the extent to which arrangements within the political executive were relevant to the mediation and resolution of the debates regarding institutional design.

1.2 The research implements

Two theoretical frameworks are drawn on to illuminate the motives and contributions of the relevant political and bureaucratic actors to the Employment Strategy. Rational (or public) choice has been a prominent political economy framework in the economics,

political science and public policy literatures for several decades. That position has been due in no small part to the attraction of the economic model of bureaucracy elaborated thirty years ago by William Niskanen (Niskanen, 1971). Niskanen's model proposes that the institutional configuration of the bureaucracy is largely a function of the maximising conduct of bureaucrats. In particular, budget-maximising behaviour amongst instrumental officials is believed to result in expanding government departments which consume increasingly large budgets in the process of inefficiently producing excess output.

The profound influence which that model has exerted over reformist administrations around the globe is partially attributable to its analysis of self-interested bureaucratic agency. The core public choice notion that maximising activity has adverse consequences in both budgetary and institutional respects has provided the political impetus behind numerous processes of public sector reform. For that reason, no serious study of bureaucratic change can reasonably ignore Niskanen's *oeuvre*. Nonetheless, the orthodox economic model provides an unsatisfactory account of the process and outcomes of the restructuring which was the centrepiece of the Employment Strategy in New Zealand. Indeed, with one arguable exception (see section 6.3.2), the data collected for this study indicate that the term 'shrinkage' more accurately describes what occurred than does the adjective 'expansion'. Moreover, the institutional consequences of the Employment Strategy were broadly consistent with recent trends within the wider New Zealand public service. Patterns in aggregate public expenditure; the 'share' of the service delivery 'market' captured by core public agencies; employment patterns within departments: in each category the empirical record in the post-reform era contradicts the projections which lie at the heart of orthodox public choice.

That said, the rational choice premium on bureaucratic agency as a driver of organisational evolution retains intrinsic merit, and more recent theoretical developments in the tradition possess an explanatory potential which Niskanen's original model can no longer lay claim to. Chief amongst these is Dunleavy's bureau-shaping framework (Dunleavy, 1991), which employs a refurbished bureaucratic maximand to account for the influence of officials on processes of bureaucratic reform. In a significant departure from the classical proposition that institutional design is both exogenous and fixed, Dunleavy contends that bureaucrats are primarily motivated to shape the institutional contours of their departments, not to maximise the size of agencies' budgets. Proceeding from the assumption that officials' utilities are intrinsically task-related and, more pointedly, that bureaucratic satisfaction attaches to policy reach rather than operational functions, Dunleavy proposes an

explanation of bureaucratic evolution which at first sight enjoys a far closer fit with the institutional changes triggered by the Employment Strategy than does that proposed by Niskanen. Most notably, the signal feature of that Strategy (the organisational division of delivery and policy functions) was entirely consistent with the tenets of the bureau-shaping account.

Dunleavy's revisionist rational choice approach rehabilitates institutions to a certain extent, and comfortably endogenises institutions such that their boundaries are amenable to the agency of political and bureaucratic élites. The departure on this point from standard public choice is the fulcrum around which Dunleavy's reconceptualised account revolves: in the absence of any capacity for senior officials to effect institutional change, his revised maximand loses its attraction. In two respects, however, the bureau-shaping framework falls some way short of a comprehensive explanation of the institutional course charted by the Employment Strategy. First, Dunleavy subscribes to the traditional public choice assumption that bureaucrats possess fixed preferences. His understanding of the complexion of those preferences, and of the manner in which they are satisfied, is novel, but the bureau-shaping model maintains the fiction that officials' preferences are given. This inflexibility hobbles Dunleavy's ability to explain why, as occurred in the Employment Strategy, a departmental chief executive might express reservations about ministers' intentions to decouple policy and delivery functions, and on that basis expressly advise against structural changes which would move an organisation closer to Dunleavy's policy-making ideal. The bureau-shaping model is also silent on the motives of those senior officials who are attracted to the management of delivery departments rather than policy ministries; this, too, was an important feature of the Employment Strategy which Dunleavy cannot satisfactorily explain.

Secondly, and as was the case in Niskanen's original framework, for Dunleavy officials remain the principal architects and key drivers of bureaucratic change. So while he permits a context-specific treatment of bureaucratic behaviour which is a marked advance on that proposed by the classical economic model, Dunleavy's preoccupation with the supply-side of the public goods equation is such that he provides few pointers regarding the role of politicians in episodes of bureaucratic reform. Yet the processes followed and decisions taken within political executives are central to the resolution of debates over institutional design. During the Employment Strategy, for instance, the Minister of Employment was able to 'bulldoze through ... complex, multi-departmental changes to the entire welfare

system' (Clifton, 1998, p. 19), despite the considerable opposition his proposals encountered within sections of the bureaucracy.

This relative inattention to the role of politicians, and to the constitutional leverage exerted by ministers relative to officials (at least in the New Zealand context), creates a disconcerting silence within the bureau-shaping model on the significance of the political executive. Surprisingly, given his sophisticated treatment of the relationship between institutional form and bureaucratic utility, Dunleavy is subdued on the ramifications which the operation of mid-range institutions (such as formal and informal decision-making arrangements within the Cabinet) have for political outcomes. There is no doubt, however, that they do. Concerning Cabinet's decision to create a stand-alone Department of Work and Income (against the trenchant advice of some officials), for instance, Roger Sowry noted wryly that '[o]nce it went through the Cabinet committee I knew we were going to win it at the Cabinet table' (Sowry, interview, 1998). The rules and procedures which channel deliberations amongst ministers fundamentally shape the institutional consequences of policy processes, and a robust bureau-shaping theory would need to acknowledge that influence.

While it has much to offer, the failure of revisionist rational choice to adequately illuminate the linkages between ministers' decisions and the outcomes of the Employment Strategy required the exploration of a second theoretical tradition. Historical institutionalism stems from the assumption that the structural and procedural characteristics of institutions are central to the outcomes of collective decision-making (see Immergut, 1998; Lowndes, 1996). Unlike earlier institutionalist approaches in which individual agency was swamped by reified institutions, historical institutionalism does not dismiss the preferences of social actors. While it is permissive of optimising behaviour, however, historical institutionalism insists that such conduct can only be understood within an institutional context. For historical institutionalists, institutions matter because they wrap boundaries around the scope and direction of political decision-making.

The attraction of historical institutionalism in the context of this thesis is its capacity to weave together institutional features *and* purposive political and bureaucratic endeavour, and to bring both to bear on the changes introduced through the Employment Strategy. While rational choice explains bureaucrats' contribution to the Strategy, historical institutionalism provides a gateway into the political dimensions of that initiative, and illuminates the dynamic nature of institutional reshaping. Thus, at the level of

constitutional convention historical institutionalism illuminates the ultimate locus of executive authority in the Cabinet, redressing the rational choice impression that politicians are largely passive in the face of bureaucratic manoeuvrings. At a more intermediate level, historical institutionalism points to both the protracted process which preceded the formation of the coalition, and the formal Coalition Agreement signed by National and New Zealand First, as important institutional ‘triggers’ (Cortell and Peterson, 1999) for placing the issue of structural reform on the government’s agenda. Perhaps most importantly, as far as this analysis is concerned, historical institutionalism draws attention to the critical function served by institutions within the political executive as fora in which debates over institutional design which were to have a substantial impact upon the public service were mediated and resolved.

1.2.1 gathering quantitative data

Within that theoretical context, the thesis draws on both quantitative and qualitative sources of data. The deployment of the former is a function of the use of rational choice as a means of theorising the Employment Strategy. Empirical applications of economic models typically seek to establish the success of maximising conduct using proxy measures, such as trends in officials’ remuneration, or the size of departments’ budgets (the methodological issues associated with such studies are discussed in section 3.1 of Appendix 1). Such analyses are undertaken in chapters 6 and 8 of the thesis, which draw quantitative data from a range of official sources, including the Crown Accounts compiled by Statistics New Zealand, aggregate human resource information provided by the State Services Commission, and the Budget Economic and Fiscal Updates prepared by the New Zealand Treasury. The use of such data is also linked to the research question, which requires some measurement of the outcomes of institutional change. Thus, section 8.4 draws on financial information in the Annual Reports of government departments to define the configuration of agencies’ budgets.

1.2.2 gathering qualitative data

The bulk of the data reported in the thesis are drawn from interviews completed with eighteen senior politicians and bureaucrats (the risks and advantages of using self-reported qualitative data are debated in section 3.2 of Appendix 1). The decision to use interviews as the chief means of data collection in this study was fundamentally a reflection of the nature of the research question. The question requires an exploration of the motives and opinions of political actors, and in that context the research follows Marsh *et al.* in acknowledging ‘the importance of the subjective judgements of actors in explaining outcomes’ (2000, p.

465). Such assessments can be gleaned from sources as diverse as parliamentary records, transcripts of speeches, and formal publications. Each of those are tapped in the thesis, but interviews with the relevant political actors are the primacy source of qualitative data. Requests for interviews were made to ten past or present politicians, and thirteen serving or former officials, each one of whom (with the exception of the former Prime Minister Sir Geoffrey Palmer) was involved with the Employment Strategy. Four potential respondents declined the request, including the then Prime Minister, the Rt. Hon. Jenny Shipley. The chief executives of the Treasury and the State Services Commission, and the former State Services Commissioner, Don Hunn, also declined to be interviewed. The failure to secure interviews with the latter two was especially unfortunate. Don Hunn was the State Services Commissioner for eight years before retiring in 1997.³ He had overseen the public service's preparations for MMP, and, as described in the following chapter, had played a key (non-partisan) role in the process of government formation in 1996. The current State Services Commissioner, Michael Wintringham, was appointed to the post in May 1997, shortly after ministers and officials had engaged in earnest with the Employment Strategy. Following Cabinet's February 1998 decision to create a Department of Work and Income, Wintringham was a member of the Chief Executives Group tasked with overseeing the establishment of the new agency. Both men would have been able to offer valuable insights into the matters canvassed in this thesis.

Former Prime Minister Jim Bolger, who at the time was New Zealand's Ambassador to the United States, did agree to be interviewed. However, each of the three attempts at arranging a meeting during the Ambassador's trips back to New Zealand was unsuccessful. In addition, because of his extensive experience in government and expertise in constitutional law, Sir Geoffrey Palmer was approached, and consented to be interviewed in June 1998.

In the event, seven ministers in the National/New Zealand First Cabinet were interviewed between December 1998 and March 1999, including each of the five members of the *ad hoc* ministerial group which oversaw the Employment Strategy. One of those ministers wished not to be named. The other six were the Rt. Hon. Bill Birch, the Rt. Hon. Wyatt Creech, the Hon. Brian Donnelly, the Hon. Peter McCardle, the Rt. Hon. Winston Peters, and the Hon. Roger Sowry.

³ With the Department of Prime Minister and Cabinet and the Treasury, the State Services Commission is one of the three central agencies in the New Zealand public service. The Commission is the government's principal adviser on machinery of government issues, strategic human resource management, and on the capability of departments to serve the collective interest.

Interviews with nine officials were completed in August and November 1998, and in May 1999. Those who participated were Carl Bakker (Treasury), Dame Margaret Bazley (chief executive, DSW), Rob Brown (Social Policy Agency), John Chetwin (chief executive, DoL), Joy Hames (State Services Commission), Simon Murdoch (chief executive, Department of Prime Minister and Cabinet), Susan Shipley (Education and Training Support Agency), Marie Shroff (Secretary of the Cabinet), and Tracey White (Ministry of Education). Alf Kirk, a former senior official who oversaw the contribution of officials to the Employment Strategy, was also interviewed in November 1998.

Given the centrality of both departments to the Employment Strategy, the views of the chief executives of the DoL and the DSW were critical. As the chief executive of the department described as the Prime Minister's 'eyes and ears' (official, interview, 1998), Simon Murdoch's was also an important contribution.⁴ Marie Shroff, who is both the Secretary of the Cabinet and Clerk of the Executive Council, offered insights into the constitutional preparations for MMP. Each of the remaining officials had contributed to one or other of the officials committees which worked on the Employment Strategy (and which are described in section 3.2.2). Given the pivotal nature of his own role in the process, Alf Kirk was in the best possible position to comment from an official's point of view on the intricacies of the Employment Strategy.

The interviews generally lasted between thirty minutes and an hour, and were semi-structured in nature (see Appendix 5 for the core interview schedule). The semi-structured format was sufficiently flexible to permit the exploration of pre-specified issues in depth, and to allow an interviewee to introduce other relevant matters. It could also be used in a directive fashion where specific responses were required, and in a less prescriptive manner when it was appropriate that a participant be granted the latitude to comment at length on a given matter. Each interview was recorded via audio tape and transcribed. Participants were sent a paper copy of the transcript of their interview, and invited to verify its contents before they were incorporated into the thesis.

⁴ Murdoch has since returned to the diplomatic service and is currently New Zealand's High Commissioner to Canberra. Dame Margaret Bazley served as the chief executive of the Ministry of Social Policy until her retirement from that agency on 30 June 2001. Following the departure of the former chief executive of the Department of Work and Income, Christine Rankin, in July 2001, Dame Margaret acted as the chief executive of the department until the formation of the Ministry of Social Development on 1 October 2001. John Chetwin remains the chief executive of the DoL.

For two reasons, permission was sought from each participant to directly attribute his or her responses in the thesis. First, the focus and scope of the research was such that it was difficult to offer a secure guarantee of anonymity. The profile of each participant, and the composition of New Zealand's political community, is such that in most instances it would not be difficult to match specific information with particular persons. Secondly, potential participants were approached on the basis of the positions which they then held, or had occupied in the recent past. On that basis, and/or because of their professional standing, the views of each eventual participant carried authority, such that an acknowledgment of their contribution would lend scholarly value to the thesis.

With one exception, each of the serving politicians who was interviewed agreed to this request, as did Sir Geoffrey Palmer and Alf Kirk. Only two officials were prepared to have their responses attributed to them in the dissertation, one of whom expressed reservations about the matter on reading the transcript of the interview. A decision was subsequently taken not to identify any of the public servants in the dissertation, and so the generic terms 'official' and 'senior official' are used when reporting interview data. Frequently the departmental affiliation of the research participant is made clear, but to the greatest extent possible the identity of individual officials has been protected.

1.3 Thesis structure

The thesis is spread across four sections. Part 1 examines the formation of the coalition government and its Employment Strategy, as a clear sense of the events, debates and conflicts which marked that tumultuous time provides the empirical point of departure for the theoretical analysis which comprises the bulk of the dissertation. The investigation begins in chapter 2, which focuses on the protracted process of government formation following the 1996 General election, and in particular on the tussles over employment policy which occurred between the National and New Zealand First parties.

Chapter 3 turns to the Employment Strategy itself, and conveys the complexity of the issues wrestled with by ministers and bureaucrats, and the tensions which arose from the design and implementation of major structural change within exacting timeframes. Those institutional reforms, however, merit a more probing and reflexive treatment than is possible through a descriptive narrative, and so the chapter concludes by rehearsing the research question which guides the subsequent theoretical treatment of the Employment Strategy.

Part 2 of the study (chapters 4 to 6) is given over to the traditional rational choice model of bureaucracy, and addresses the first and second of the three aspects of the Employment Strategy identified above. The nature of the bureaucratic maximand has long been a core concern of economics, political economy and public administration, and it sits at the centre of this project. The traditional position on that issue is exemplified by Niskanen's work on bureaucracy, and in chapter 4 the central tenets of his economic model, and the relevant features of the wider public choice tradition within which it is housed, are examined. Its durability and considerable normative influence notwithstanding, however, Niskanen's elegant construct is theoretically flawed. Its blemishes, which extend to supply-side public choice theory in general, are the subject of chapter 5.

Chapter 6 assesses the capacity of the budget-maximising thesis to explain the institutional changes associated with the Employment Strategy. It reviews the empirical literature, a significant portion of which indicates that Niskanen's model cannot explain widespread contemporary trends such as falling public expenditure, increases in non-bureaucratic service provision, and reductions in the size of public service workforces. The chapter concludes that (with one arguable exception) orthodox public choice is unable to convincingly account for the consequences of the Employment Strategy for departmental structures, budgets or personnel levels.

For that reason, Part 3 of the thesis (chapters 7 to 9) focuses on an alternative rational choice model. Patrick Dunleavy is part of the recent wave of rational choice institutionalists, so called because of their willingness to bring institutions back into the analytical frame. His bureau-shaping model, which is described in chapter 7, retains certain features of traditional public choice, but proposes a radically different set of goals and strategies for maximising bureaucrats. Dunleavy's belief that officials are motivated to shape the institutional boundaries of their agencies is a compelling one, and its empirical application to the Employment Strategy in chapter 8 makes considerable sense of that particular episode in public policy.

However, Dunleavy is vulnerable to certain of the criticisms of rational choice made in chapter 5. Two in particular stand out in the context of this thesis, both of which are teased out in chapter 9. First, his retention of the assumption of fixed preferences prohibits the possibility that individuals may possess variable (and changing) preferences. The data generated in this study, however, reveal a more nuanced set of motives amongst senior officials than Dunleavy would be prepared to accept. Secondly, the bureau-shaping model

imputes to public servants a degree of leverage over decision-making which is inconsistent with the conventions and practices of Cabinet government. It therefore engenders a silence regarding the influence which ministers had on the Employment Strategy, and on the ways in which ministers' decisions were mediated through an institutional apparatus comprising an *ad hoc* group, a Cabinet committee and the Cabinet.

Those are significant omissions, and mean that the second and third of the components of the over-arching research question remain substantially unanswered. Therefore, in Part 4 (chapters 10 and 11) the focus shifts to a second strand of the new institutionalism. Chapter 10 describes the key features of historical institutionalism, and then applies that orientation to the Employment Strategy. An examination of the importance of political institutions to that process adds considerable value to Dunleavy's treatment of individuals' motives; in particular, it highlights the importance of understanding the junctures at which decisions or choices can be vetoed, and of appreciating the influence which these institutional veto points have upon the strategies adopted by particular individuals.

The point reached at the end of chapter 10, however, is that in isolation neither the rational choice nor the historical variants of the new institutionalism can convey a clear sense of the drivers of the structural changes which flowed from the Employment Strategy. An amalgamation of the two offers a means of marrying Dunleavy's emphasis on purposive bureaucratic agency with the historical institutionalist's concern with context and particularity. Chapter 11 outlines how such a rapprochement might be effected, the key to which lies in (a) modifying the 'hard-edged' behavioural assumptions of rational choice and (b) introducing a suitably revised self-interest maxim into historical institutionalism.

1.4 Why the Employment Strategy?

Three reasons lie behind the decision to (a) use the Employment Strategy as an empirical case-study and (b) to make a particular sense of that process by applying the theoretical frameworks outlined in section 1.2. First, the Strategy spanned many of the major public policy issues of the day, and yet at the time this thesis was completed it had attracted little academic attention. For instance, the Employment Strategy was a watershed in the perennial debate regarding the rights and obligations of the providers and recipients of income support. Of more relevance for this research is that the Strategy may come to be seen as a juncture in the history of public service reform. The vertical division of functions has long been a staple of departmental reform in New Zealand, but on the basis of evidence

set out in chapter 10, it appears that decision-makers' preferences on matters of optimal institutional design are evolving. In the future, large-scale departmental restructuring may not be countenanced as readily as it has been in the recent past, and there are lessons to be learnt from a detailed analysis of the Employment Strategy which are apposite to those changing preferences.

Secondly, the Strategy provided an opportunity to assess the merits of two models of bureaucracy, neither of which have received much empirical attention in this country. The spectre of Niskanen's budget-maximising bureaucrat lurks behind much of the detail of the wider reform project, but there are few empirical tests of the economic model in the domestic context. The seminal publication on New Zealand's system of public management (Boston, Martin *et al.*, 1996) contains an assessment of the influence the model has had on the architects of the reforms, but as far as can be ascertained the present study contains the first (and, on the basis of the conclusions reached in chapter 6, quite possibly the last) attempt to analyse a specific case of institutional reform using Niskanen's principles.

Neither have detailed New Zealand-based studies been conducted concerning the merits of Dunleavy's revised rational choice approach. There is one theoretical application of the bureau-shaping model which explains the activities of a hypothetical agency in the conservation sector (Michaels, 1999), and there are scattered references to Dunleavy's work in the literature (see Boston, Martin *et al.*, 1996; McLeay, 1995). However, given the obvious appeal of a bureau-shaping argument in the context of a contemporary political preference for shrinking the public service and pushing delivery responsibilities out to non-departmental providers, more rigorous testing of Dunleavy's thesis might have been expected. The Employment Strategy offered just such an opportunity, especially as it allowed two departments to be tracked from pre- to post-reform institutional states. As this project demonstrates, there are limits to which that process can be explained through a bureau-shaping prism, but that notwithstanding it has a great deal to offer to architects and analysts of public service reform in New Zealand.

Finally, the choices were shaped by the scope and significance of the Employment Strategy. The policy reforms were to affect over 350,000 working-age beneficiaries, and the organisational changes had far-reaching ramifications for two departments which, at the time, jointly employed nearly a quarter of the public service workforce, and administered budgets accounting for approximately 30% of all public expenditure. In the view of the coalition's Minister of Employment, Hon. Peter McCardle, 'few [people] understand the

remarkable achievement of those changes. They are the biggest public sector reforms in a long, long time' (McCardle, interview, 1998). This thesis illuminates the trajectory of those revisions, and, on that basis, advances a new line of theoretical development which more fully explains the drivers and consequences of institutional reshaping within a public sector context.

Part 1

Chapter 2 - Forming a government in 1996

2.1 Introduction

In 1993 a document circulated within the State Services Commission which speculated on the likely impacts of the introduction of MMP on the public service (State Services Commission, 1993a). The paper suggested that, in terms of service delivery at least, life for most public servants under proportional representation would continue much as it had under the previous plurality electoral régime. For much of the public service, in fact, 'business can be expected to carry on as before. In operational areas, prisons will continue to operate, benefits will continue to be paid, [and] the Employment Service will continue to place people' (State Services Commission, 1993a, p. 6).

That prognosis has been partially vindicated. Benefits do indeed continue to be paid, and people are still being placed in employment and training programmes. In one crucial respect, however, business for bureaucrats who provide advice or deliver services in the domains of income support and employment has done anything but 'carry on as before'. Instead, many of them have been through one of the most extensive episodes in institutional upheaval experienced in the New Zealand public service, the dimensions of which encouraged a former Minister of Employment, Peter McCardle, to describe the machinery of government changes as 'the most far-reaching and, in my view, ... largest public sector reorganisation[s] in about a decade' (NZPD, Vol. 571, 1998, p. 11727).¹

The refurbishments were immediate consequences of the Employment Strategy pursued by the National/New Zealand First coalition which held office between December 1996 and August 1998. As a prologue to the search for the determinants of those institutional reforms, Part 1 of the thesis (chapters 2 and 3) describes the formation of the National/New Zealand First government, and the development of the administration's employment policy. This chapter rehearses the sequence of political events through which

¹ Other significant machinery of government initiatives pursued by the coalition included the amalgamation of the Ministries of Agriculture and Forestry into a single Ministry of Agriculture and Forestry, the cessation of the operations of two departments (the Government Superannuation Fund, which was absorbed into the Ministry of Commerce, and Valuation New Zealand, which became a Crown entity), and the establishment of four Maori Development Commissions (State Services Commission, 1998a, p. 50).

the Employment Strategy made its way onto the coalition's policy agenda. It begins with an examination of the politics of the coalition negotiations held in late 1996, focusing on (a) the debates between National and New Zealand First over employment policy, and (b) on the relevant content of the Coalition Agreement signed by those two parties. The second section of the chapter reviews the contribution made by bureaucrats to the process of government formation in 1996, and is particularly concerned with the substantive nature of the information on organisational design options in employment policy which was provided by officials to the political parties' negotiators.

2.2 The politics of government formation

On 12 October 1996 New Zealanders voted for the first time under a proportional representation electoral system. For a nation once famously described as the 'purest example of the Westminster model of government' (Lijphart, 1987, p. 97), the election represented a watershed in several respects.² It was the first time that a mature parliamentary democracy with constitutional ties to Westminster had abandoned a plurality electoral system in favour of proportionality. More immediately, the election delivered a multi-party parliament, the political, gender and cultural complexion of which reflected voters' preferences, and the diversity which characterises contemporary New Zealand society, more closely than had traditionally been the case.³

For the purposes of this project there were two especially telling outcomes of New Zealand's first MMP election. The first was that, as expected, neither of the two main political parties, National and Labour, commanded a majority in the House of Representatives in their own right.⁴ The second was the fact that the fledgling New Zealand

² Lijphart's majoritarian model is constructed around two clusters of characteristics. The first comprises the simple plurality electoral system, a two-party system in which the major parties are distinguished on socio-economic issues, and a single party Cabinet which dominates the legislature. The second cluster consists of either a unicameral legislature or a bicameral legislature with a weak upper chamber, a unitary and centralised government, and an unwritten constitution dispersed across a variety of sources. In New Zealand MMP has resulted in the disappearance of the first cluster of characteristics, but has not altered the features of the second.

³ For detailed discussions of the results of the 1996 election see Boston, Levine *et al.* (1997), Miller (1997), and Vowles *et al.* (1998).

⁴ National secured 36.6% of effective party votes (i.e. that percentage of the party vote reached once votes for parties which are not entitled to list seats are excluded) and 44 seats (of 120); Labour won 30.49% of effective party votes (and 37 seats); New Zealand First obtained 14.44% of effective party votes (and 17 seats) (Electoral Commission, 1997).

First party was left exercising the balance of power (or, as former New Zealand First Member of Parliament (MP) Michael Laws described it, the ‘balance of responsibility’).⁵ That party was, in fact, indispensable to each of the four major governing options which emerged in the immediate aftermath of the election:

- a National/New Zealand First coalition majority government;
- a National minority government, supported by New Zealand First and other minor parties;
- a Labour/New Zealand First coalition minority government, supported by the Alliance;
- a Labour minority government, supported by New Zealand First and the Alliance (Boston and McLeay, 1997, p. 212).⁶

The lack of clarity regarding the identity of the incoming administration necessitated a process of inter-party negotiation which was unique in modern New Zealand political history. The mediation and resolution of the ensuing parallel discussions between, on the one hand, National and New Zealand First, and, on the other, New Zealand First and Labour, was made all the more uncertain by the fact that New Zealand lacked a ‘coalition culture’. One of the legacies of the former plurality system, which had unfailingly returned single party majority governments since 1935, was the absence of any ‘constitutional or institutional constraints on the process of government formation’ (Boston and McLeay, 1997, p. 208). Indeed, notwithstanding the constitutional requirement that parliament must convene within six weeks of the return of the writs from a General election (section 19, *Constitution Act* 1986), the permissiveness which surrounds the business of government formation in New Zealand places it firmly within that camp of nations described as possessing ‘free-style bargaining’ arrangements (Boston, 1998c; Laver and Schofield, 1990). (The *Constitution Act* does not specify a timeframe within which a government must be formed *per se*, but clear political incentives existed for the parties concerned to complete the coalition negotiations prior to 13 December 1996, the day by which the new parliament had to convene.)

⁵ Laws was not the first to employ the phrase in New Zealand politics. For a short time following the 1981 election it appeared that Social Credit’s two MPs, Bruce Beetham and Gary Knapp, would hold the balance of power. During that period they, too, described themselves as exercising the ‘balance of responsibility’ (Gustafson, 2000, p. 320). Beetham and Knapp exercised the balance of power at least once, voting with the National government on the administration’s *Clutha Development (Clyde Dam) Empowering Bill* on 30 September 1982 (NZPD, Vol. 447, p. 3685).

⁶ The authors demonstrate that if political considerations are set to one side, there existed some eight possible governing options following the election (see Boston and McLeay, 1997, p. 213).

That the coalition negotiations began in this relatively unbounded institutional context rendered them something of an exploration into the political unknown. More significantly, in the context of this dissertation, the discussions, which commenced with a meeting between National and New Zealand First on 21 October and concluded with the signing of a Coalition Agreement between those two parties on 10 December, represented an opportunity for some participants to commence construction of the case for policy and institutional reform which was in due course to drive the Employment Strategy.

2.2.1 negotiating the Coalition Agreement

The eventual consequences of the opening of this unique window of opportunity justify a focus here on those features of the negotiations which were to prove of relevance for the Employment Strategy (for a rehearsal of the process in its entirety see Boston, 1997; Boston and McLeay, 1997; Shaw, 1999a).⁷ Particular attention needs to be given to both the manner in which the Employment Strategy was placed on the coalition's policy agenda, and the form in which it was codified, for the Coalition Agreement was to serve as 'a manifesto for the government' (Sowry, interview, 1998), and guided much of the policy development and implementation which transpired during its twenty months in office.

That process has its roots in the early parliamentary career of Peter McCardle, who was to be named Minister of Employment in the Cabinet announced by Prime Minister Bolger on 15 December 1996. Given that McCardle was to play a key role in the organisation's demise, there is irony in the fact that prior to his election in 1990 as the very first National party MP for Heretaunga, he had been employed as a manager in the Employment Service.⁸ The future minister's deep-seated interest in reducing the incidence of unemployment generally, and long-term unemployment in particular, dated from that period, during which he developed 'a very simplistic view that work is part of our nature, and I think it is quite debilitating, almost unnatural, to say to someone: 'We will pay you, but don't do anything, just go away'. I just think it is contrary to human nature' (McCardle, interview, 1998).

⁷ Because this research focuses on the institutional etymology of the coalition's Employment Strategy, the material presented here concerns the two teams representing the eventual partners in government, National and New Zealand First. No interviews were undertaken with Labour party members in the course of this research. Moreover, there is scant documentary evidence concerning Labour's position on the relevant issues during the negotiations (see State Services Commission, 1997e).

⁸ Until its incorporation into the Department of Work and Income in October 1998, the Employment Service was a business unit within the DoL, responsible for delivering employment and training-related programmes.

McCardle became increasingly concerned that the strategies being pursued by the Employment Service to combat unemployment 'made no sense. We were counting half-day placements, one hour placements, and repeat placements, and we were ignoring the people we should be focusing on. The hardest to place. So I decided to come here to change it' (McCardle, interview, 1998). Between 1990 and 1996 he single-mindedly and tirelessly promoted within National's caucus an employment policy which had evolved out of his prior experiences as an official, and which had been articulated in his maiden speech to the House. At the heart of that policy stood a single organisational 'structure for ... dealing with the unemployed through one agency only, region by region' (NZPD, Vol. 511, 1990, pp. 143-148).

Although McCardle believes there was some support for his policy amongst National's backbenchers (McCardle, interview, 1998), he made little progress with successive Ministers of Employment (Maurice McTigue, Bill Birch and Wyatt Creech) during his time in caucus. Indeed, he seems to have been treated with disdain by some senior colleagues. It was alleged by the Labour party's spokesperson on social welfare, for instance, that the man whom McCardle was to succeed as Minister of Employment, Wyatt Creech, once described the member for Heretaunga as 'a silly man of limited ability, modest ability, who would be unable to understand what to do to assist the unemployed, and [who] certainly could not drive any kind of sensible programme through Parliament' (NZPD, Vol. 570, 1998, p. 11328).

Years later, New Zealand First's senior whip was to speak of National's dismissal of McCardle's ideas on employment policy. During the final parliamentary stages of the legislation which established the Department of Work and Income (the *Employment Service and Income Support (Integrated Administration) Bill*), Ron Mark reminded National's members that:

... despite what some Government members say, Peter McCardle talked for years about this initiative whilst he was in the ranks of the National party. For years he tried to convince his National colleagues that his experience, his time as an employment officer, was valuable; that the vision was there, and that through his work scheme in the Hutt he had proven that the idea [of a one-stop shop] worked. [B]ut for years they chose to do nothing. For years the National caucus ignored Peter McCardle (NZPD, Vol. 571, 1998, pp. 11746-11747).

Mark's sentiments may have been coloured by the fact that barely ten days earlier his party had been ejected from the Treasury benches, at which point McCardle and seven other MPs had abandoned New Zealand First to pledge their support on matters of confidence and supply to the new National-led minority administration.⁹ Nonetheless, they explain McCardle's decision to leave the National party for New Zealand First in mid-1996, for whom he was to play key roles in the co-ordination of policy development in the run-up to the 1996 election, and in the negotiation of the Coalition Agreement with his former National party colleagues (Boston and McLeay, 1997, p. 222).

As a member of his party's negotiating team, McCardle's participation in the drawn out discussions between National and New Zealand First in late 1996 were crucial to the unfolding of the Employment Strategy.¹⁰ He brought to the negotiating table the single-minded commitment to the establishment of a regionally based, integrated employment and income support agency which had been the defining characteristic of his tenure in the House. Few on either side of the political-bureaucratic divide were left in any doubt about the importance of that policy to New Zealand First's negotiators. A senior official in one of the agencies most affected by the Employment Strategy remembers receiving 'a very strong message that the employment section of the Coalition Agreement was a very important part of it to New Zealand First' (interview, 1998). Similarly, a New Zealand First MP, Hon. Brian Donnelly, recalls that the former Employment Service manager was absolutely determined to use his membership of the party's negotiating team to secure 'a fairly high priority for his pet project' (Donnelly, interview, 1999).

Six years after his maiden speech, however, McCardle's position was made markedly stronger by the fact that his personal convictions had been adopted as party policy by New

⁹ The National/New Zealand First coalition government was formally terminated on 18 August 1998. That day Peter McCardle, Tuariki John Delamere, Deborah Morris, Jack Elder, Tau Henare, Tukuroirangi Morgan, Rana Waitai, and Ann Batten resigned from New Zealand First. McCardle, Delamere and Elder remained as ministers outside Cabinet, while Henare kept his various portfolios within Cabinet. On 30 August, Prime Minister Shipley and each of the four independent members of the ministry signed a document titled 'Agreement to become a Member of the Executive', which, amongst other things, indicated that as a 'condition of participation (in the executive) that member will comply with the requirements of the Cabinet Office Manual and associated Cabinet Office Circulars, in particular, the conventions of collective Cabinet responsibility and Cabinet confidentiality' (Rodenberg, 1998).

¹⁰ In addition to McCardle, New Zealand First's team comprised the party's leader and deputy leader, Winston Peters and Tau Henare, and the party president Doug Woolerton. National's negotiators were drawn from a caucus reference group which included Prime Minister Bolger, Deputy Prime Minister Don McKinnon, Bill Birch, Paul East, Jenny Shipley, Roger Sowry, Max Bradford, Doug Graham, and the party's only Maori MP, Georgina Te Heu Heu (Boston and McLeay, 1997, p. 223).

Zealand First. In addition, his leader, Winston Peters, who as a senior National MP recalls 'was fairly taken with Peter McCardle' (Creech, interview, 1998), firmly supported McCardle's insistence that the policy be an integral part of any coalition agreement. Indeed, New Zealand First regarded 'unemployment as this country's number one problem' (Peters, interview, 1999), and the party's negotiators were determined to gain leverage on that issue through the process of government formation.

McCardle concedes that 'MMP did allow me to have the policy as a key part of the party I was then in' (McCardle, interview, 1998), but plays down the tenor and significance of his position on employment matters during the negotiations. However, that assessment does not accord with views expressed by other key actors in the discussions between National and New Zealand First. The then Minister of Finance, Rt. Hon. Bill Birch, for one, guardedly described McCardle as possessing 'very firm ideas about giving more flexibility to the managers in the field' (Birch, interview, 1999). Roger Sowry, then National's senior whip, is much less equivocal on the matter, and remembers being left in no doubt that for New Zealand First the Employment Strategy 'was a bottom line' (Sowry, interview, 1998).¹¹ Intriguingly, Sowry also recollects that:

... there was one attempt to talk to Labour about the whole labour relations side and employment policy. One of our negotiating team contacted a Labour frontbench person to discuss whether or not ... we could agree with them on some parameters that we would not give in on, and they would not give in on, to New Zealand First. That was rejected. It was a fairly informal attempt that fell flat. So, we were negotiating blind, it was a bottom line, and we accepted it (Sowry, interview, 1998).

That an approach was made to Labour suggests that, even after his departure from the party, senior National party members continued to harbour reservations about McCardle's approach to employment policy. There is no documentary evidence which sheds light on the nature of those concerns, but it is reasonable to assume that they were similar to those which had originally prompted McCardle to quit the party in frustration. In particular,

¹¹ Before announcing its preferred coalition partner, the New Zealand First caucus considered two draft coalition agreements, one which had been negotiated with National, and which subsequently became the formal policy template for the coalition government, and one which had been agreed with Labour (Barker, 1997). Sowry's assessment of the importance of New Zealand First's employment policy is endorsed by Barker, who points out that it 'was transplanted almost word for word into each of the two coalition agreements' (1997, pp. 248-249).

National's caution is likely to have derived from the unsatisfactory results of pilot schemes conducted during the mid-1990s which had delegated limited control over the involvement of unemployed people in work schemes to regionally-based officials. Evaluations of those trials had identified fiscal risks and policy co-ordination inconsistencies. Consequently, as Bill Birch has pointed out, while the party was not 'unsympathetic to what Peter was saying, it was just that we had also been very conscious that in previous years those sorts of systems had gone off the rails. And there had been problems, if not, in some cases, scandals' (Birch, interview, 1999).

Whatever the basis of its concerns, National's negotiators were left in no doubt that a commitment to an employment policy of the sort conceived by McCardle was fundamental to achieving a coalition agreement with New Zealand First. Wyatt Creech was not a member of his party's core negotiating team, but as a senior minister he was privy to and closely involved in developments in the negotiations (Creech, interview, 1998). He remains convinced that:

... as far as McCardle was concerned it was a deal-breaker. And if it was a deal-breaker, Jim Bolger wasn't going to stand in the way of it, because it was really all that stood between him and losing the [Prime Minister's] job. Being able to make a deal with Winston. So I gave him my view, which was that it wasn't worth the gamble. But he [Bolger] was quite happy to make that concession (Creech, interview, 1998).

In short, the political imperatives of coalition formation proved such that in the final instance National's negotiators did accede to New Zealand First's, and Peter McCardle's, demands regarding employment policy. It seems that ministers in the caretaker government were relatively sanguine about the outcome of the debate. They were not 'totally persuaded that the risks [of accepting New Zealand First's employment policy] wouldn't exceed the benefits ... [but] that became a trade-off in terms of the Coalition Agreement. As did a lot of other things' (Birch, interview, 1999). At the time, Wyatt Creech and others within National may well have experienced that concession as something of a capitulation, but the trade-off on employment policy was shortly thereafter to provide National with a guise under which it would aggressively pursue institutional change and policy reforms which far exceeded those which were originally stipulated by McCardle and New Zealand First.

2.2.2 the Coalition Agreement

Following weeks of intense discussions, New Zealand First exercised the balance of power on 10 December 1996. That the party only decided upon its preferred coalition partner some hours before its decision was publicly announced by Winston Peters typified the uncertainty which had surrounded the negotiations. In fact, Brian Donnelly insists that 'up until the time we made the decision on that Tuesday, no-one had any idea which way we were going to go. Quite honestly, I could not have told you at 4 or 5 o'clock even on that day which way we were going to go' (Donnelly, interview, 1999).

Throughout the Tuesday in question, negotiations continued between New Zealand First and each of its prospective coalition partners. The decision to enter government with National appears to have been made on the basis of that party's willingness (and Labour's reluctance) to accommodate New Zealand First's preferences regarding the creation of a Treasurer's position for Winston Peters, and on a range of matters concerning the size, structure and composition of the Cabinet (Boston and McLeay, 1997).

The coalition between National and New Zealand First was announced late in the evening in extraordinary circumstances. The decision which New Zealand First's caucus eventually took was only dispatched to the respective leaders of the National and Labour parties shortly before Winston Peters announced it to the nation via a televised press conference. The Prime Minister was informed of the outcome shortly after the press conference had commenced, but Labour's leader, Helen Clark, 'learned of her party's future at the same time as all other New Zealanders' (Boston and McLeay, 1997, p. 232).

In the days following the high drama which had surrounded the announcement of the coalition, attention turned to the structure and content of the Coalition Agreement itself. The document was a curious mix of the procedural and substantive. In addition to an extensive section dictating the framework which would govern the structure and management of the coalition (Coalition Agreement, 1997, pp. 4-11), the Coalition Agreement incorporated a considerable amount of policy detail, which ran to some fifty pages and covered thirty six discrete policy areas (Coalition Agreement, 1997, pp. 12-61).¹²

¹² The printed version of the Coalition Agreement, which was published on 18 December, also included a statement of fiscal parameters for the government's programmes, and a Supplementary Agreement on a range of matters which had not been dealt with during the formal coalition negotiations. For a detailed discussion of the content of the Coalition Agreement, see Boston and McLeay (1997, pp. 233-236).

On matters of employment policy, the government's core objectives were to 'reduc[e] the percentage of job seekers who are long-term unemployed, involv[e] job seekers while they are unemployed in part-time community work and training', and to give '[r]egions ... greater influence over how these and other employment goals are met' (Coalition Agreement, 1997, p. 25).¹³ Several detailed policy initiatives were also described, including the introduction of a Community Wage, which would replace the Unemployment benefit and 'require registered unemployed to undertake a prescribed level of work or training', and the 'development of a more regionally driven approach to achieving employment policy objectives [by establishing] Regional Employment Commissioners' (Coalition Agreement, 1997, p. 25).

Crucially, while judgement was reserved on whether or not it was to be a 'stand-alone service or part of the Department of Social Welfare', the document also contained a commitment:

... in principle [to] the integration of the New Zealand Employment Service, the unemployment benefit division of the New Zealand Income Support Service, the Community Employment Group, and the Training Opportunities Programme's resources of the Education and Training Support Agency into one Employment Service (Coalition Agreement, 1997, p. 25).

The central features of that employment policy, with its references to structural integration, regionalisation, and benefit reform, bear a striking resemblance to the content of Peter McCardle's maiden speech. That must have been a source of immense personal satisfaction to McCardle, who had 'over many years worked with [the policy], thought about it, discussed it, challenged it, questioned it, and seen it from the delivery end, the management end, and [finally] the political end' (McCardle, interview, 1998).

If the new administration's employment policy vindicated the years which McCardle had spent striving to have it placed on an executive agenda, it was also a victory for his new party. At the very outset of the coalition negotiations, and regardless of the identity of its eventual partner, New Zealand First had insisted on a highly specific coalition agreement. For Winston Peters, as the leader of a small party destined to be a junior coalition partner, a significant degree of policy prescription was:

¹³ See Appendix 2 for the full text of the employment policy codified in the Coalition Agreement.

... critical. You see, this idea of a loose coalition where you don't have any terms thrashed out is a recipe for howling disaster. We couldn't have got all the things we did through without that detailed commitment, because you'll find, both within a party and between parties, that differing views will find every reason to vacillate, procrastinate and delay (Peters, interview, 1999).

For New Zealand First, then, the formalisation of an explicit commitment to what was essentially its own employment policy was regarded as a guarantee that the coalition government would develop and administer programmes which were consistent with the party's preferences.

However, while Winston Peters may have believed that 'the moment the Coalition Agreement was signed the policy had to then become an implemented reality' (Peters, interview, 1999), subsequent developments were to throw some doubt on the wisdom of assuming that the codification of a policy is a sufficient (or even a necessary) prerequisite for perfect programme implementation. Indeed, the full ramifications of the positioning over policy which took place during the coalition negotiations would not become apparent from some time, and the Employment Strategy which National committed to was to cut in unexpected directions. The employment policy provisions of the Coalition Agreement were to prove immensely valuable to a group of ministers and officials whose reformist ambitions, both in institutional and policy delivery terms, outstripped those of Peter McCardle and Winston Peters. For instance, while the Agreement referred to a focus on long-term unemployed, the benefit reforms which were eventually implemented applied to all working-age beneficiaries. And while the agreement anticipated a modest integration of 'the unemployment benefit division' of the Income Support Service into a single Employment Service, no such division of the Income Support Service actually existed. Instead, the coalition government created a large, new Department of Work and Income which was numerically dominated by former Income Support Service staff. As a consequence, the sizeable organisational changes which were to occur after the establishment of that department (the creation of the Ministry of Social Policy and the Department of Child, Youth and Family Services) were substantially contingent upon what was, initially, a reference in the Coalition Agreement to a fictional bureaucratic entity.

The means through which these changes came about, and the degree to which they departed from McCardle's own policy vision, are the central subjects of later chapters. The point that needs making here is that the institutional reforms which the coalition oversaw would

in all likelihood not have taken place had explicit mention of structural change not been made in the Coalition Agreement. On this issue the coalition's Minister of Social Welfare, who was prominent amongst those who extracted substantial policy capital from the Employment Strategy, is adamant: in Roger Sowry's view, 'if the Coalition Agreement had not said we're going to do even the little bit [of institutional change] that it mentioned, well, then we wouldn't have gone down this path' (Sowry, interview, 1998).

2.3 Bureaucrats and government formation

While the Coalition Agreement was formally negotiated by members of political parties, its policy-specific nature spoke of the important role played by officials in the process of government formation. Relatively little has been published on the generic experiences of public servants under New Zealand's current electoral arrangements (although see Boston, 1998d; Boston *et al.*, 1998a, 1998b; James, 1997), and even less on the particular subject of their input into the business of forming governments (see Shaw, 1999a). In 1996, however, that contribution was a pivotal one, not least because the information used by the political parties' negotiators to inform their discussions was overwhelmingly provided by the public service.¹⁴ Moreover, quite apart from the immediate utility of that information, the substantive and procedural features of officials' engagement with the negotiations were to have repercussions for the trajectory taken by the Employment Strategy. Most importantly, the content of officials' responses to requests for information on the implications of establishing an integrated benefit and employment agency revealed a distinct lack of enthusiasm in certain bureaucratic quarters for what was to be the organisational centrepiece of the government's Strategy. That tepidity was to rapidly evolve into outright conflict amongst officials (and, regarding specific issues, between officials and ministers), and contributed to a policy process described by one participant as having resembled 'a den of cats' (official, interview, 1998).

2.3.1 requests and responses on employment policy

The contribution of officials to the coalition negotiations was mediated through a set of arrangements designed between the staging of the binding referendum on electoral law

¹⁴ At the request of New Zealand First, however, the caretaker government provided \$565,000 for the purchase of non-public service economic and financial advice (Boston and McLeay, 1997, p. 228). The fund was administered by the Parliamentary Service Commission and was only drawn on by New Zealand First.

reform in 1993 and the 1996 General election.¹⁵ The nature of those arrangements, and of the preparatory activity out of which they emerged, is discussed elsewhere (see Boston, 1997; Boston *et al.*, 1998a; James, 1997; Shaw, 1999a). Their key feature was a set of protocols for managing contact between political parties and officials during periods of government formation, administered by a central committee convened by the State Services Commissioner, on which also sat the chief executives of the Department of Prime Minister and Cabinet and the Treasury, and the Secretary of the Cabinet.¹⁶

That the arrangements were required at all reflected the lack of institutional guidance on managing the dynamics of multi-party processes which was a legacy of New Zealand's lengthy experience of plurality. In particular, they were designed in response to concerns about the risks which the new electoral environment might pose to the non-partisan status of the bureaucracy, specifically during coalition negotiations. The procedures were approved by Cabinet shortly before the 1996 election (State Services Commission, 1996e).¹⁷ Essentially, they represented a means of managing the political/administrative interface 'which made it very clear that ministers do political negotiations, and that public servants are there to support in a technical manner' (official, interview, 1996).

Throughout the negotiations, the committee of senior officials served as the conduit through which communications between politicians and departments flowed. The 'clearing house' approach had been adopted for several reasons. It provided for 'quality control on the information', and ensured that information was 'appropriately provided in terms of timeliness [and] consistency of presentation' (official, interview, 1998). In some senior bureaucratic quarters, it was also felt that the approach had been taken in order to guard against the risk that departments might actively engage in (or be perceived to be engaging

¹⁵ MMP was adopted through two referenda. On 19 September 1992, 55% of registered voters voted in an indicative referendum on electoral law reform (Levine and Roberts, 1993). Voters were invited to indicate whether or not they supported electoral reform (Part A), and which of several different electoral systems they would prefer in the event of change (Part B). 84.7% of those who cast a valid vote in Part A supported reform, while in Part B, 70.5% of valid votes cast identified MMP as the preferred option (Levine and Roberts, 1993). That result committed the incumbent National government to a second and binding referendum, held in conjunction with the General election staged on 6 November 1993. 82.9% of eligible voters turned out, and 53.9% of those who voted in the referendum supported a change to MMP (Vowles and Aimer, 1994). Interestingly, 0.2% of those who cast a vote in the General election did not do so in the referendum (Vowles and Aimer, 1994).

¹⁶ The protocols are set out in detail in Shaw (1999a, p. 44).

¹⁷ The State Services Commission identified three junctures during which the status of public servants might be compromised. These were during election campaigns, periods of caretaker government, and processes of government formation (State Services Commission, 1995a, pp. 65-101).

in) 'a bidding for resources through coalition negotiations' (official, interview, 1998). As noted after the event, the 'great danger [was that] the public service [might] be seen to be campaigning with one particular party or another, or for a particular policy, or [that] a chief executive of a department [might be seen] to be trying to make a grab for resources' (official, interview, 1998).

Between late October and early December 1996 the committee received twenty eight requests from the negotiating parties for information and advice (Cabinet Office, 1997f, p. 1). Twenty five of these were registered by the caretaker government, most of which sought costings of proposed policy initiatives across a slew of policy domains (State Services Commission, 1997e). The Labour party, largely as it possessed its own internal policy capacity, submitted only three requests (two relating to housing issues, and one concerning staffing and structural changes in schools). No requests were directly issued by New Zealand First. Perhaps because of the demands associated with conducting dual sets of discussions, which 'meant that we had twice the amount of work that everybody else did' (Peters, interview, 1999), the party chose instead to rely on National to obtain from officials the information which it required.

More requests were made for information on employment policy matters than for any other single policy area. Four requests in total, running to seven separate inquiries, were lodged (each by the National party) with the State Services Commissioner. The nature of the questions, and the dates on which they were received and responded to, are set out in the following table.

Table 2.1 - Requests for information on employment policy

| # request | Date | | Nature of request |
|-----------|-----------|----------|---|
| | submitted | response | |
| GF 504/1 | 30/10 | 8/11 | Cost and practical implications of requiring the following unemployed job-seekers to be employed in community work and/or training for the number of hours per week equivalent to their unemployment benefit calculated at market wage rates?: (a) those job-seekers registered for 26 weeks or longer? (b) all registered job-seekers? |
| GF 504/2 | 30/10 | 5/11 | Approximate cost and practical implications of integrating the Employment Service, the Income Support Service, the Community Employment Group and the Education and Training Support Agency into a 'one-stop shop' for unemployed job-seekers under one administrative régime? |

| | | | |
|----------|-------|-------|---|
| GF 504/3 | 30/10 | 5/11 | Costing and practical implications of creating Regional Employment Commissioners to oversee a co-ordinated approach to regional employment? |
| GF 504/4 | 30/10 | 5/11 | Costing and practical implications of creating Regional Employment Committees with responsibility for working with the Regional Employment Commissioners to establish short and medium term Employment Plans? |
| GF 512 | 12/11 | 26/11 | Describe the range of 'workfare'-type initiatives used overseas and how they have evolved over time. Particular focus should be given to: their objectives, target groups and any exemptions, range of activities used, any additional support provided, duration of participation, administrative implications, the nature of the benefit system in the particular country involved, and any evaluative research of [sic] the effectiveness of these approaches. How do such approaches compare with current New Zealand policies and programmes? |
| GF 513 | 14/11 | 22/11 | Information on alternative organisational and delivery options to ensure the best delivery of services which assist unemployed job-seekers to move into employment. |
| GF 520 | 3/12 | 6/12 | What would be the practical implications (from an administrative, legislative and policy perspective) of combining the Employment Service, the Community Employment Group, the services provided to work-tested beneficiaries by the Income Support Service, and the Training Opportunities resources of the Education and Training Support Agency into one organisation, and devolving responsibility for delivery to Regional Employment Commissioners accountable to the Minister of Employment and supported by Regional Employment Committees? The services to be provided would include work for benefit. |

Three of the seven discrete questions canvassed matters of organisational design (GF 504/2, GF 513 and GF 520).¹⁸ The chief relevance of those three inquiries lies not in their focus *per se* (for it is clear that institutional reform was exercising the minds of the parties' negotiators), but in the substance and tenor of the responses subsequently provided by public servants. The procedures enforced by the State Services Commissioner forbade the provision of advice (officials were enjoined to provide only information and analysis in response to party's queries), or the expression of officials' opinions on the merits of the matters raised in questions. Those constraints were intended to protect departments from having to reveal their normative positions in advance of the formation of a government.

¹⁸ The officials' response to the third query, GF 520, contains a much wider focus than do the replies to the other two requests, and includes discussions regarding funding arrangements, the executive authority to be vested in Regional Commissioners, and a range of service delivery issues. The responses to GF 504/2 and GF 513, on the other hand, focus exclusively on questions of institutional design, for which reason they receive closest attention here.

That said, much of the information which passed through the central committee reveals a distinct wariness of the sorts of administrative reforms presaged by the requests. A week after National and New Zealand First first met, for instance, officials were asked to comment on the costs and implications of establishing a one-stop shop responsible for the income support and employment needs of unemployed beneficiaries (GF 504/2). They submitted that the establishment of such an entity was likely to lead to ‘a significant increase in transitional and ongoing costs and operational risks ... [and that] [a]lternative options could be explored which are likely to be more effective and cheaper’ (State Services Commission, 1997e, GF 504/2, p. 1).¹⁹ That discussion also raised for the first time the risk that the administration of income support would dominate the activities of an integrated agency. Officials expressed a particular concern that the ‘full integration of income and employment services for all beneficiaries (not just work-tested beneficiaries) ... [could] possibly be to the detriment of the employment focus and employment outcomes’ (State Services Commission, 1997e, GF 504/2, p. 9). A more effective approach might be to continue with the process of co-location (which was being pursued at the time by the Employment Service and the Income Support Service), in which both organisations maintained distinct identities and administrative structures, but either shared premises and/or integrated their respective client databases.

A fortnight later, politicians sought further information on alternative organisational and delivery options (GF 513). There are two telling features of the officials’ response to that request. The first is the drawing of a distinction between two core approaches to the integration of service delivery. The choice presented to the politicians was between ‘a structural approach involving physical and organisational integration of the service providers, and a systems approach which involves careful design of interfaces between information, operational and delivery systems’ (State Services Commission, 1997e, GF 513, pp. 1-2). That binary option was to frame the intense tussles over institutional reform which took place in the ensuing months. Variations on both models were to be developed, but the principal cleavage throughout the Employment Strategy lay between proponents of structural integration, and those who supported what became known as ‘virtual integration’, or the systems approach.

¹⁹ That particular analysis presumed that (a) the new entity would be located within an existing department, and (b) that beneficiaries who were not subject to work-testing provisions would continue to access services through the Income Support Service. Neither assumption was to obtain: during its short existence the Department of Work and Income was a stand-alone department which transacted income support and employment services for all beneficiaries. (The evolution of the department is discussed in section 10.5.)

The second interesting aspect of the response to GF 513 is that while its Executive Summary made positive (and extended) mention of the systems approach to integration, there were virtually no references to the structural model, and those which did appear were largely negative. Thus, while the document's authors accepted that there was 'little between the two approaches in terms of financial cost', they suggested that in the 'short to medium term, the systems approach under co-location is more likely to be effective and provide benefits in terms of the co-ordination and efficiency of employment and income support services' (State Services Commission, 1997e, GF 513, p. 2). Officials also identified a lack of robust information regarding the benefits of structural integration (but pointed to the 'disruption and associated risks which would accompany rapid structural change'), and were of the view that an assessment of the 'risks, costs and benefits of going to full integration' should be deferred until further 'experience with systems integration and co-location' generated the information required to undertake such an analysis (State Services Commission, 1997e, GF 513, p. 2).

The same cautious sentiments exist in the response to the final request for information regarding institutional design (GF 520). The complexion of the question itself (which was submitted only a week before the signing of the Coalition Agreement) strongly suggests that the politicians had, by that point, decided to proceed with structural integration: GF 520 brought together in one cumbersome query various matters relating to benefit policy design, structural change and regionalisation which had previously been separately canvassed in questions GF 504/1 to 504/4. While the assumption that National and New Zealand First had committed to structural integration has no basis in documentation, there was an air of inevitability to the response furnished by officials to GF 520. A great deal of attention (much of which highlights issues of concern) was paid to matters such as reporting arrangements and accountability requirements within an integrated entity, but relatively little space was devoted to assessing the impacts of institutional change. Moreover, most of that analysis was subdued, and simply restated points raised in earlier responses.

The one new issue raised in the response to GF 520 concerned the time needed to implement structural integration. On this count, officials reminded politicians that '[r]ecent experience with major change of this nature suggests that a minimum of 12 months is required to plan and begin to implement change, and up to a further 24 months [is needed] to establish stable service delivery' (State Services Commission, 1997e, GF 520, p. 12). As they did with many of the other matters raised by public servants during the negotiations, however, the elected representatives were to ignore this imprecation. Long before the three

year timeframe recommended by bureaucrats had elapsed, the process of integration would have been substantially completed.

2.3.2 contributing to the agenda?

As intended, the most immediate effect of the procedures employed in 1996 was to shield the bureaucracy from the overtly partisan aspects of the coalition negotiations. The overwhelming assessment of those to whom the arrangements applied is that they were highly effective in that regard (Boston *et al.*, 1998a, pp. 70-71; James, 1997; Shaw, 1999a). The State Services Commissioner conscientiously patrolled the interface between negotiators and officials, screening out requests which fell beyond the parameters agreed to before the election, and guarding against personal contact between politicians and public servants.²⁰

However, the erection of an institutional buffer between politicians and officials severely circumscribed the extent to which the latter could engage substantively with the policy issues being debated in the negotiations. By preventing senior bureaucrats from conveying advice on the merits and weaknesses of the proposals under consideration, it precluded the sort of informed contribution to the formulation of the government's policy agenda which they had become accustomed to offering under pre-MMP arrangements. Indeed, most officials appear to have had no sense whatsoever of the substantive nature of the policy debates taking place within the negotiations. A senior official in a department which had an especially heavy workload during that process recalls that 'we could only get some hint from the sorts of questions we were getting. But as to what they were thinking at the time, we really had no idea. [There was] [n]o direct communication' (interview, 1998).

Of course, that was precisely what had been intended. Nonetheless, the lack of engagement was cause for considerable frustration amongst some chief executives. Many subsequently expressed concerns that the protocols had unduly restricted the quality of the data which officials had been able to place in front of politicians (James, 1997, p. 41). Indeed, amongst senior officials it was widely felt that the ban on the presentation of all information other

²⁰ On at least one occasion Don Hunn was required to ask a politician to refocus a request. The request in question was GF 520, which National's Wyatt Creech submitted on 3 December. Hunn considered it outside the agreed parameters, and wrote to the caretaker Minister of Education reminding him that only information or analysis, but not advice, could be sought from officials. The Commissioner acknowledged that under normal circumstances a more exacting assessment could be expected from public servants, but pointed out that the framework governing the negotiations was not such as to permit 'an extended dialogue on such a matter' (State Services Commission, 1997e, page number unspecified).

than that which was specifically requested meant that the Coalition Agreement was predicated on the basis of inadequate information (James, 1997, pp. 41-42). For one department, that was to have dramatic consequences. A senior official in that agency candidly admits to feeling:

... strongly that we were the losers, because that whole Coalition Agreement was negotiated without the advice of officials. For example, in our area there was a package of \$80 million dollars that just vanished. And it vanished because there was no [policy] basis for it. Well, God, we could have done with getting our fingers on that, but there was no detailed case made for it (interview, 1998).

Secondly, the pre-election decision not to furnish any party engaged in coalition discussions, including the caretaker government, with departments' post-election briefing papers had a crucial bearing on the nature of the information made available to negotiators. The decision was consistent with the established convention that such briefing papers are provided only to appointed ministers in an incoming government, but it was not unanimously endorsed by senior officials (James, 1997, pp. 44-45). With one exception, the senior officials interviewed for this research felt that the decision diminished the value that departments were able to add to the government formation process generally, and, more specifically, that it detracted from the rigour of the employment policy settings contained in the Coalition Agreement. One is firmly of the view that the politicians involved in the coalition negotiations:

... needed the post-election briefing papers. I think the post-election briefings are a very important part of the life of this country. It's the one time when it's possible for the public servants to put their view. And I think it's important that they [politicians] get that view before they make up their mind on policy, because once the policy is set in train for the next three years, that's that. So if they do it without all the advice available to them it is not going to be as good as it should be (interview, 1998).

Thirdly, some officials roundly criticised the lack of scope for personal meetings between negotiators and officials. An extended dialogue between incoming ministers and their lead bureaucrats would typically precede the firming up of an administration's policy agenda, in which context both parties might seek to clarify the new minister's policy expectations and

preferences. The 1996 protocols, however, expressly prohibited meetings between public servants and negotiating politicians (other than those sanctioned by the Prime Minister). At least one senior official found that this arrangement ‘suffered from the lack of immediacy of communication [and] was a much more stilted process than the normal process of giving policy advice where you are in dialogue with ministers’ (interview, 1998). Consequently, some departments spent considerable time following the formation of the government in working through, with their ministers, the ramifications of policy settings which had been established without their involvement. The business of reaching a shared understanding was, for some, an exhaustive one, and required a ‘very active process with [the minister]. In essence, we had to tease through with him all the issues as he saw them, and what was behind everything that was in that Coalition Agreement’ (official, interview, 1998). Not infrequently, as another official recalls, tensions arose at points where the government formation process had not ‘iron[ed] out some of the implementation wrinkles, or inherent conflicts between an agreement in one area and an agreement in another’ (interview, 1999).

For one of the departments which was to play a prominent role in the Employment Strategy, that process, and the establishment of the rapport which is central to a functional political-bureaucratic relationship, was complicated by the public release of the information supplied by the public service to the negotiating teams on 7 February 1997. An official in that agency, who has pointedly described the Commissioner’s decision to release the information as ‘a balls-up’, explains that:

... we had been party to giving answers to questions which exposed the weaknesses in propositions which subsequently became Coalition Agreement policies. Then we had to work with those parties and the ministers, and Mr McCardle was a case in point, and I think it made the process of establishing a relationship, and establishing confidence with those new ministers, more difficult than it had been in the past. They were naturally suspicious. The fact that they’d had their proposals analysed publicly, and critically, made it much more difficult to establish that working relationship. So, that was a start that was somewhat rocky (interview, 1998).

In that person’s view, the challenges for officials were compounded by the drawing of a formal distinction between information and analysis, and advice. The latter was defined by the State Services Commission (1997e, p. 4) as any communication of ‘a personal view on

the merits of the policy'; such communication was expressly prohibited. The attempt to distinguish between analysis and advice had its genesis in criticisms made of the 'expansive assumptions' Treasury officials had employed when providing costings of Labour party election promises in 1993 (official, interview, 1998). In March 1994, an inquiry into those costings established that 'the Treasury had breached internal guidelines on political neutrality and impartiality in six out of the seventeen reports' it had furnished on Labour's policies (McLeay, 1995, pp. 196-197). In 1996, therefore, senior officials were concerned to ensure that public servants 'did not stray into the trap, again, of ending up with expansive commentaries on questions, because that [would] involve making assumptions, and it would in that sense amount to policy advice' (official, interview, 1998).

However, the operationalisation of the distinction between information and analysis, and advice, proved troublesome for officials.²¹ The notion that information and analysis is impartial, but advice is not, which is what that distinction suggests, is a contestable one. The distinction is arguably a rhetorical fiction, for it infers that while advice is possessed of a normative orientation, information and analysis are not, and are in some way divorced from the intellectual processes which frame the generation of advice.

During the coalition discussions the distinction tended to become fudged. While some chief executives felt that the arrangements encouraged responses which were 'more anodyne and coded' than might traditionally have been the case (Boston *et al.*, 1998a, p. 71), there is evidence that others sought to use their responses to signal a position on a given policy issue which, under normal circumstances, they would have been able to explicitly articulate to an incoming minister. An official who was involved in responding to the questions on employment policy, for instance, has explained that 'while we got questions on it through the State Services Commission's process, quite specific questions, the answers that went back would not have led the National party negotiators to believe that it [the proposed policy] was a brilliant idea' (interview, 1998).

An examination of the content, structure and vocabulary used in the answers in question bears that point out. The reply to inquiry GF 513 identifies a host of advantages which would attach to the acceleration of the process of co-location. It would 'provide a low cost means of streamlining services, yet retaining separate administrative entities and focus',

²¹ The philosophical and practical difficulties attached to that exercise, in the context of the formation of the National/New Zealand First coalition government, are rehearsed in greater detail in Shaw (1999a).

maintain the advantages for clients for dealing with specialist teams but ‘generate opportunities to further develop the operational synergy between both services’, and enhance ‘communication and information sharing between the staff of the two agencies over time’ (State Services Commission, 1997e, GF 513, pp. 8-9). On the other hand, only two fairly minor reservations about that option are expressed. Some ‘additional funding, primarily associated with the acquisition of property, [and] the buying out of leases’ would be required, and there may be constraints on the organisations’ ability to quickly obtain ‘suitable premises, both in terms of size and location’ (State Services Commission, 1997e, GF 513, p. 9).

A more circumspect tone, however, characterises the assessment of the structural approach. Officials accept that ‘[f]ull integration has the potential to provide some benefits’, but immediately qualify that acknowledgment by adding that the same benefits ‘are also being achieved through the current strategy of co-location’ (State Services Commission, 1997e, GF 513, p. 11). Similarly, they contend that while a fully integrated agency may result in ‘increased access by currently non work-tested beneficiaries to employment assistance ... [e]xperience shows that there is increased uptake of such assistance by these groups in co-located sites’ (State Services Commission, 1997e, GF 513, pp. 12-13). There are also expressions of concern that full integration will have ‘a significant impact on the staff of the two agencies affected and will result in instability and reduced productivity during its implementation [which] in turn will disrupt service delivery to clients [and] result in redundancies’ (State Services Commission, 1997e, GF 513, p. 12).

In practical terms, then, it appears that the boundaries between advice and information were occasionally blurred. Forthright normative observations by officials may have been forbidden, but judicious choices regarding what to include in responses, and, as importantly, what *not* to include, were taken by some departments. As far as employment policy matters were concerned, those decisions meant that the structure of the information and analysis provided to politicians revealed departmental preferences, and effectively promoted certain institutional design options over others.

2.4 Conclusion

It is clear that certain officials were vigorously opposed to New Zealand First’s employment policy in general, and to structural integration in particular. It is every bit as clear that those reservations had no bearing on the political decisions regarding

employment policy which were eventually codified in the Coalition Agreement. That the politicians plumped for structural change despite the discretion counselled by public servants suggests that, at least in 1996, the policy leverage exerted by the bureaucracy did not approximate the template popularised by the British television show 'Yes Minister'.²² Indeed, having dismissed their imprecations, a number of ministers subsequently questioned the currency of some of the information provided by the departments. Peter McCardle, for instance, simply ignored communications from officials which 'talked about displacement in Sweden, and many other things that eventually were shown to have next to no relevance to the policy that was implemented or intended [in New Zealand]' (McCardle, interview, 1998).

The fact that the concerns expressed about organisational integration were dismissed was in part a function of the strategic position occupied by New Zealand First during the coalition negotiations, and of that party's commitment to the one-stop shop model. It can also be attributed to the influence of the protocols administered by the State Services Commissioner. The ban on the presentation of any information which had not been directly requested by politicians prevented officials from placing before negotiators comprehensive advice on the merits and risks of structural integration. The prohibition against the offering of advice forced public servants to express their opposition to that measure indirectly, and the injunction against face-to-face contact between officials and politicians precluded the active exploration of alternative institutional arrangements. In short, the departments' collective ability to contribute to the parameters of the coalition's initial policy settings was substantially constrained.

It would be incorrect, though, to impute a sector-wide opposition to structural integration on the basis of officials' replies to the National party's questions on the issue. The available documentation does not identify the departmental genesis of the three responses to the questions which related to organisational design issues. The thematic content and continuity of those responses suggests a common author, but that cannot be established with certainty. It is entirely probable, in fact, that the two agencies about to be most intimately affected by the Employment Strategy, the DoL and the DSW, were at odds on the merits of structural *vis a vis* virtual integration. That much is suggested by the agencies' respective post-election briefing papers, which reveal clear differences of opinion over both the case for structural change, and the precise configuration any such reforms might take.

²² See Borins (1988) for an analysis of the extent to which that television production has popularised the principles of public choice.

As the Strategy took shape, those differences were to become increasingly stark. That the DSW's preferences were broadly consistent with the position expressed in the Coalition Agreement does not demonstrate that it had been more effective in promoting its position during the coalition negotiations than had the DoL. The contents of both agencies' briefing papers were held in confidence until the coalition government was sworn in, and the DSW was certainly not exempt from the strictures which the central agencies placed around the departments during the negotiations. The point is that in 1996 there were no avenues through which a department could clearly communicate its advice on whether or not a fully integrated employment and income support service was an appropriate administrative vehicle for the coalition's employment policy. The decision that it *was* was taken by politicians without the benefit of the collective advice of the public service. Of course, the same outcome might have been achieved (and probably would have, given New Zealand First's intransigence on the issue) even had politicians had recourse to officials' advice. However, as the following chapter reveals, regardless of having been denied the opportunity to offer advice, the events which were to unfold over the coming year were to demonstrate the extraordinary degree to which a highly motivated department can turn political serendipity to its advantage.

Chapter 3 - Portrait of a policy

3.1 Introduction

Looking back over the events of 1997, one of the ministers involved in the Employment Strategy, New Zealand First's Brian Donnelly, remarked that 'experienced people say that there has never been a policy that has had so much work put into it. It was a massive undertaking' (Donnelly, interview, 1999). In part, the magnitude of the exercise derived from the scale of the consequences of the Employment Strategy for two departments, the DoL and the DSW, which between them employed a quarter of all departmental officials in 1997 (State Services Commission, 2000). Ministers' decisions would, in short order, dramatically reduce the size of the former and lead to the dismantling of the latter. Donnelly's comments also reflect the complexity of the policy linkages that applied both within the Employment Strategy, which itself encompassed four discrete strands of work, and between the Strategy and two other substantial programmes of policy reform which were simultaneously being pursued by the government.

The purpose of this chapter is to establish the issues, debates and decisions which marked what was 'a huge, sprawling kind of inquiry [characterised] at every stage by positioning, game-playing, agenda-setting and agenda-undermining' (official, interview, 1998). To that end the chapter comprises three sections. First, the structure of the political-bureaucratic apparatus which bounded policy development and decision-making is sketched. Second, the discussion probes the positions taken by the various protagonists on several crucial policy issues, the two most significant of which were the target population for the coalition's Benefit Reform programme, and the most appropriate organisational vehicle for the administration of that policy. Finally, the chapter sets out the second-order consequences of the decision to create an integrated employment and benefit administration agency, and rehearses the means through which the search for the determinants of the events described in this chapter is conducted.

Interview data is used extensively in the chapter, and the focus throughout is on the months during which the pivotal debates about the design, location and governance arrangements of what was to become the Department of Work and Income were taken. That period began in early 1997 with the first meetings of the ministers and officials tasked with fleshing out the coalition's employment policy, and ended on 9 February 1998 with a Cabinet decision to constitute the new stand-alone agency as a government department (Cabinet Office, 1998j). Cabinet's directive triggered a second flurry of activity during which a Chief Executives Group oversaw the establishment of the new department (Cabinet Office, 1997c), and a third process was undergone as the DSW made way for the Department of Child, Youth and

Family Services and the Ministry of Social Policy.¹ For two reasons, however, those phases lie beyond the scope of this chapter. Given the concern in this thesis with the determinants of institutional reform, it is the decision-making process, rather than the implementation of the decision, which is of chief significance. Secondly, because both the advent of the Department of Child, Youth and Family Services and the Ministry of Social Policy, and the demise of the DSW, were functions of the creation of the Department of Work and Income, it is that initial decision which is of most immediate relevance to this study.

3.2 Political and administrative structures

The Coalition Agreement set out the parameters of, but specified little substantive policy detail regarding the Employment Strategy. For the purposes of this research, the document begged two fundamental questions:

1. what was to be the nature and scope of the Community Wage and other programmes designed to reduce the incidence of (particularly long-term) unemployment?;
2. what institutional form would the integration of employment and income support services and resources take?

The emphasis in this dissertation is firmly on institutional issues, but matters of policy and organisational design cannot be treated in isolation, for as the Employment Strategy evolved, it became abundantly clear (to the alarm of some officials, particularly within the DoL) that ministers' decisions regarding the target population to which the provisions of the Community Wage would apply were driving their thinking on structural arrangements. Institutional form would eventually follow administrative function, but debates concerning both were to be vigorously contested.

3.2.1 arrangements within the political executive

Political stewardship of the Employment Strategy was delegated by Cabinet to an *ad hoc* Ministerial Committee on Employment and Welfare Reform. The committee reported to the Cabinet Committee on Strategy and Priorities, and thence to Cabinet. G5, as the *ad hoc* group was colloquially known, began as an informal gathering of ministers, but its role in the Employment Strategy was quickly formalised by Cabinet (official, interview, 1998). It comprised Bill Birch (Minister of Finance), Roger Sowry (Minister of Social Welfare) and Wyatt Creech (Minister of Education) from the National party, and New Zealand First's Winston Peters (Deputy Prime Minister and Treasurer) and Peter McCardle (Minister of

¹ In its legal form the DSW remains in place, renamed the Ministry of Social Policy. The *State Sector Amendment Bill*, introduced on 24 July 2001 and currently before the House, will remove the DSW and the Department of Work and Income from the First Schedule of the *State Sector Act* 1988, which lists public service departments, and add the Ministry of Social Development (formed in October 2001 by the merging of the Ministry of Social Policy and the Department of Work and Income).

Employment).² The committee was chaired by Peters and, in his absence, by Bill Birch, and would occasionally transmogrify into G7 with the attendance of the Prime Minister, Jim Bolger, and the Minister of State Services, Jenny Shipley. More frequently, New Zealand First's Associate Minister for Education, Brian Donnelly, would also participate in G5's deliberations (Sowry, interview, 1998).³

G5 played a pivotal role in the Employment Strategy (which is explored fully in section 10.3.2). As a relatively informal setting in which ministers could meet, frequently with officials in attendance, to address specific issues, it provided a forum within which differences over policy could be aired, debated and (in most instances) resolved before being taken into the formal Cabinet decision-making process (Sowry, interview, 1998). Wyatt Creech has offered the generic observation that *ad hoc* committees tend to be highly:

... efficient when you're dealing with a project. It's the informality of it, and the fact that people are getting together to make a decision. The ministers that are on it are all informed. [Whereas] with a Cabinet committee, you get a wad of papers about this thick on the night before the next day. You'll know your own papers, but I'm sure that most people haven't read anything other than the summary on the cover sheet, and they base their arguments on that (Creech, interview, 1998).

Naturally, debates within G5 were often vigorous, and 'from time to time there was the odd outlier on an issue' (Sowry, interview, 1998). In particular, there was tension between Roger Sowry and Peter McCardle. That had partly to do with the different approaches those ministers took to G5's work. Wyatt Creech observed that throughout the process McCardle, who admits to being 'finicky about detail' (McCardle, interview, 1998), focused almost exclusively on detailed operational matters (Creech, interview, 1998). Sowry, on the other hand, did not care 'one iota ... where the lines are for the regions, or whether there are twelve or fifteen Regional Employment Commissioners', and was perfectly happy that McCardle 'puddled away there at the operational level' (Sowry, interview, 1998). Instead, Sowry's principal concerns were with strategic considerations, and as a consequence, Creech remembers that 'Sowry [got] a bit impatient. McCardle is very methodical, very detailed, and I think Roger found him frustratingly slow' (Creech, interview, 1998).

More substantively, the conflict derived from the respective priorities those ministers brought into G5. As Minister of Employment, Peter McCardle's 'primary focus was

² Only the principal portfolios of these ministers are indicated here.

³ G5 was formally disbanded in November 1998 (Sowry, interview, 1998).

progressing the Employment Strategy' (McCardle, interview, 1998). Roger Sowry, however, was interested in advancing welfare reforms and institutional changes which were far more ambitious than the relatively modest revisions to the Unemployment benefit envisaged by his ministerial colleague. Those diverging interests led to sharp differences of opinion between the two, particularly regarding the nature and size of the target population to which the Community Wage would apply (see section 3.3.1 below).

For the most part, however, the environment within G5 was 'very professional [and] never descended into animosity' (Donnelly, interview, 1999). Importantly, G5 enabled ministers to identify 'the hot points and [to] get the gripes out early' (official, interview, 1998), and thence to develop a robust corporate position on policy before entering the formal decision-making structures of Cabinet government. Indeed, Roger Sowry is firmly of the view that the group was intentionally 'created as a mechanism so that you had a group of ministers that went through the Cabinet committee process who were all committed, and could argue in largely the same direction' (Sowry, interview, 1998). G5's effectiveness as a pre-Cabinet 'filter' amplified the likelihood that the options proposed by its members would be accepted by the Cabinet Committee on Strategy and Priorities, and subsequently endorsed by Cabinet. For a G5 minister wishing to promote a particular policy direction, securing the backing of the *ad hoc* committee was a precondition to gaining the support of the wider ministry.

More pragmatically, the committee was also 'really useful for clearing the paperwork, which was huge' (Sowry, interview, 1998). G5 was tasked with managing three large, but reasonably discrete policy processes which the coalition was conducting concurrently. In addition to the Employment Strategy, the previous National government's Strengthening Families programme continued under the new administration. That project sought improved outcomes for children and families through greater co-operation amongst agencies in the health, welfare and education sectors (DSW, 1998a, p. 1). It had few direct policy interfaces with the Employment Strategy, but it did encompass the activities of the DSW, which was to make a significant contribution to the government's employment policy.

The Employment Strategy was, however, closely connected to a third major programme of policy development. The Benefit Reform process was not specifically referred to in the Coalition Agreement, but it was to become inextricably bound up with decisions taken on employment matters (Sowry, interview, 1998). A momentum to reform both the structure and administration of welfare benefits had been building, particularly within the DSW, long before National and New Zealand First jointly took office. Since the early 1990s, in fact, the Income Support Service had been 'talking about customised service, which was focusing

on getting people off benefits and [into] self-reliance' (official, interview, 1998).⁴ In 1996, that position was formalised in the DSW's post-election briefing papers, which advocated '[f]undamental changes to benefit support and delivery' (DSW, 1996b, p. 17). Specifically, the department called for the implementation of an 'active assistance approach [which] is the processing of an application for a benefit in a way which establishes expectations on and for individual beneficiaries about their responsibilities ... to become more self-reliant' (DSW, 1996b, p. 25).

The emphasis within the Employment Strategy on (a) the development of a Community Wage and (b) an administrative vehicle for delivering that policy meshed beautifully with the DSW's plans for benefit reform, and provided both the agency and its minister with an opportunity to promote those proposals within G5. Indeed, it was formally recognised that 'there [was] a strong interface between the Government's employment strategy and benefit reform work' (Cabinet Office, 1997a, p. 2).⁵ Roger Sowry concedes that Peter McCardle 'expressed, several times, a nervousness about some of the [welfare] reform stuff going through G5', but also recalls that 'the reform work was so large, it was just [a matter of] taking the opportunity to feed it into the structural changes' which were codified in the employment policy section of the Coalition Agreement (Sowry, interview, 1998). The critical point is that while 'the Community Wage piece [of the Employment Strategy] was very much a central piece in the Benefit Reform package, Benefit Reform was wider than that' (official, interview, 1998). As a consequence of bringing both the Employment Strategy and the Benefit Reform project within G5's orbit, what began as a search for a means of reducing long-term unemployment rapidly became 'dominated by a Minister of Social Welfare' (Kirk, interview, 1998) who was committed to delivering a comprehensive package of welfare benefit reforms. Significantly, from an institutional point of view, the magnitude of those policy reforms demanded organisational revisions which were to stretch well beyond those foreshadowed in the Coalition Agreement.

⁴ Before its incorporation into the Department of Work and Income, the Income Support Service was a business unit within the Department of Social Welfare.

⁵ That interface was predicated upon a series of principles which informed the Benefit Reform strategy, namely that:

- 'participation in paid work ultimately underpins economic independence and improvements in life outcomes;
- employment is the ultimate objective of all income support-related contact with individuals;
- most individuals are capable of undertaking some work;
- income support should be seen as providing transitional assistance whilst a person is without work; and
- work expectations and obligations (and therefore sanctions) should be linked to an individual's capacity to work' (Cabinet Office, 1997a, p. 2).

3.2.2 arrangements within the bureaucracy

Each of the three projects for which G5 was responsible possessed a corresponding set of administrative arrangements. These consisted of a series of inter-departmental officials committees which reported to a senior official, who in turn was tasked with co-ordinating the advice furnished by officials to ministers.

Ministers' informational requirements regarding the Employment Strategy were serviced by an officials' structure at the apex of which sat an Employment Integration Steering Group. The Steering Group⁶, as it became known, was chaired by Alf Kirk, an experienced public servant previously employed at the Treasury and the State Services Commission, but who was, in early 1997, working for the DoL's policy unit, the Labour Market Policy Group (Kirk, interview, 1998). Kirk, who reported to Peter McCardle, was well known within political and bureaucratic communities. Throughout the late 1980s and 1990s he had gained a great deal of experience in processes of institutional reform, particularly in the public health sector, and had established skills which the coalition felt would be of value in the Employment Strategy. Kirk 'was seen by some of the ministers to have the capability to be impartial and to keep all the balls juggled in the air' (Donnelly, interview, 1999). His reputation amongst other officials was also an attribute which ministers believed would stand him in good stead, for not only was Kirk responsible for the provision of advice concerning the Employment Strategy, he also contributed to the management of the interface between the Strategy, and the Strengthening Families and Benefit Reform projects.

Kirk's Steering Group included representatives from most of the agencies with a stake in the Employment Strategy. Its meetings were attended by officials from the Labour Market Policy Group and the Strategic Management Group within the DoL, the Social Policy Agency, the Treasury, the State Services Commission, and the Department of Prime Minister and Cabinet (official, interview, 1998). In addition, the Steering Group included the convenors of each of the four working parties which reported to Kirk (see below).

Officials were informed in early 1997 that terms of reference were being drawn up which would govern the inter-departmental policy work on the Employment Strategy (official, interview, 1999). The Strategy consisted of work undertaken on four distinct policy issues, each of which was delegated to a sub-committee which reported to the Steering Group.⁷ One

⁶ Throughout the thesis the group is referred to as the Steering Group. However, formal publications are attributed via the group's formal title, the Employment Integration Steering Group (EISG).

⁷ The Steering Group also sought input from other stakeholders. In early 1997 it requested public comment on three of the four components of the Employment Strategy. The 240 submissions it

working party developed the Community Wage policy, a second focused on community work and training options, and a third sketched out the role of the Regional Employment Commissioners.

The fourth group, with which this thesis is most concerned, tussled with ‘the organisational rearrangement work [occasioned by the] integration of the Employment Service, Income Support and the Community Employment Group, and the Training Opportunities part of the Education and Training Support Agency’ (official, interview, 1998). The Organisational Design Working Group (ODWG) included officials from each of the departments which had a clear interest in the machinery of government issues raised by the Employment Strategy. In addition, the group’s convenor ensured that representation was provided for the smaller entities which seemed likely to be affected by ministers’ eventual decisions on institutional design (official, interview, 1998). Thus, officials from both the Community Employment Group and the Education and Training Support Agency were regular attendees at ODWG meetings (official, interview, 1998).

3.3 The debates

A former Prime Minister, Sir Geoffrey Palmer, suggests that ‘people who haven’t been in government tend to think that it’s orderly. It isn’t. It’s like a great big war zone in which there are battles and confusion’ (Palmer, interview, 1998). Sir Geoffrey’s comments were offered as a reflection on the nature of government in general, but they also describe the processes which unfurled within G5, the Steering Group and the ODWG between early 1997 and February 1998.

Few of those who contributed to this research recall that period as having been anything other than a trying time. Peter McCardle remembers 1997 as ‘a year of absolute solid, hard slog’ (McCardle, interview, 1998). Wyatt Creech recollects that colleagues became ‘utterly and completely frustrated with the length of time it was taking for the officials to deliver anything’ (Creech, interview, 1998), and Brian Donnelly attributes the ‘fear [and] jockeying for position’ amongst departments as the major reason for the irritation ministers felt throughout much of the year (Donnelly, interview, 1999). Officials also retain sharp memories of those months, albeit of a different order. One senior public servant feels that ‘officials were constantly being brought up short in terms of the behaviour of certain ministers, and the kind of demands that were put on officials’ (interview, 1999). Another remembers the year to February 1998 as one which was characterised by ‘a lot of anger in some quarters [and] denial in others’ (interview, 1998).

received were summarised in a report produced in June 1997 (EISG, 1997b). The sole issue which was not canvassed exhaustively was that of organisational design.

And for Alf Kirk, who has 'dealt with a lot of ministerial processes in my time, not all of them brilliant' it was simply 'one of the worst I've ever been through. It was just dreadful. You felt that you weren't going to get anywhere' (Kirk, interview, 1998).

The various difficulties were played out in a number of fora. There was conflict within G5 over policy, and tensions amongst officials over organisational design options. There was also considerable trouble between ministers and officials, particularly regarding some ministers' perceptions that they were forced to contend with 'enormous obstruction all the way through from officials who tried to reshape [policy] or position themselves to run it' (Peters, interview, 1999). Fundamentally, however, the character of the Employment Strategy stemmed from the manner in which four core issues were debated and resolved.

3.3.1 policy target group

The first decision confronting ministers in what was to be a 'thorough, if somewhat strained' process (Hunn, 2000, p. 27), was whether the Employment Strategy was to apply to 'all working-age beneficiaries or only to unemployment beneficiaries' (Kirk, interview, 1998). Although its full ramifications were not to become clear for some months, from the point of view of institutional design Cabinet took the most critical decision of the Employment Strategy on 15 September 1997. Acting on the recommendation of G5 and the Cabinet Committee on Strategy and Priorities, Cabinet agreed that the 'client base for the Employment Strategy should be broadened to cover all working-age beneficiaries' (Cabinet Office, 1997g, p. 1).

Notwithstanding McCardle's initial concern with long-term unemployed beneficiaries, there appears to have been little contention within G5 over the decision to extend the application of the Strategy to all working-age beneficiaries. The rationale for doing so has been expressed by Wyatt Creech (who as a former Minister of Employment was intimately familiar with the issues involved), who has explained that:

... the moment that you said: 'We're going to have the Community Wage and attach it to the Unemployment benefit', I said: 'All that will happen is you will get massive migration onto the Sickness benefit, so we'd better reform that too'. The whole thing grew out of that (Creech, interview, 1998).

Cabinet's decision was motivated by a wish to reduce the incentives for beneficiaries to avoid the work-testing and sanctions provisions of the Community Wage by shifting off the Unemployment benefit and onto a non-work tested benefit. The decision was, all the same, of a different order to the exclusive emphasis on long-term unemployment which Peter

McCardle had previously promoted. McCardle himself accepts that what was decided on 15 September was not symmetrical with his original position, but maintains that extending the Employment Strategy to all working-age beneficiaries 'was always my intention. It's a component that I aimed to bring in subsequent to getting everything integrated for the unemployment beneficiaries' (McCardle, interview, 1998).

Others are less sure of McCardle's claims that he 'had little philosophical disagreement with the extension of work-testing' (McCardle, interview, 1998). One senior official who attended every meeting of G5 through to February 1998 is convinced that while 'eventually everybody [else] agreed that working-age beneficiaries had to be kept together ... McCardle was still haggling. He was not very comfortable about that, and still wanted his unemployment benefit kept separate' (interview, 1998).

Cabinet's decision was a significant victory for the DSW and its minister. Roger Sowry's commitment to the application of benefit reforms to all working-age beneficiaries has been dated by one official to the 'Beyond Dependency Conference', which the DSW staged between 16-19 March 1997 (official, interview, 1998). At the conference, the recently appointed Minister of Social Welfare delivered an address which had been prepared for him by DSW officials, in which he pointedly referred to the 'staggering' increase in the numbers 'of working-age people [who] [a]re dependent on a benefit' (Sowry, 1997, p. 4). That the numbers receiving the Domestic Purposes benefit, Sickness benefit and Invalids benefit had risen sharply between 1991 and 1996, during which period take-up of the Unemployment benefit had fallen some 12%, clearly worried the new minister (and his department) (Sowry, 1997, p. 4).

In a subsequent address to the Organisation for Economic Co-operation and Development (OECD), Sowry expanded on the logic behind his policy preferences, pointing out that while it had traditionally been 'administratively and politically convenient to concentrate return-to-work efforts on those narrowly identified as unemployed', his intention was to address 'the growth of [benefit] dependent populations among the sick, invalids and sole parents' by enforcing amongst those groups 'reciprocal obligations [which mean] being willing and ready to undertake skills training, to look for a job and to accept work when it is available' (Sowry, 1998, pp. 2-3).

The Minister of Social Welfare took his determination to ensure 'the work-testing of everybody, right across the board, of all working-age beneficiaries' into G5 (Sowry, interview, 1998). Policy reform of that magnitude received no mention in the Coalition Agreement. Indeed, Roger Sowry recalls that 'when I started that work I got told by the Prime Minister at the time, Mr Bolger: 'You don't have a dog's show of doing that. You

won't be able to get it through'. But we got through substantial welfare reform in this government this year' (Sowry, interview, 1998).

On this issue, the minister and his department were as one. Indeed, within the DSW it had long been:

... quite clear that there was no way that we could separate Unemployment benefit out of working-age beneficiaries. The whole lot's entwined. The minute you start putting the Unemployment benefit in one agency, and the Domestic Purposes benefit over here [in another], and you have both doing Special Needs grants, well, you know, the financial risk from that is just massive (official, interview, 1998).

The department's endorsement of the application of the Employment Strategy to all working-age beneficiaries was a function of its concern to reduce the transaction costs and fiscal risks associated with benefit migration, and any fragmentation of the administration of income support. It also reflected DSW's desire to extend its active case management model to a wider range of beneficiaries. Officials shared their minister's concerns that while that approach had been reasonably successful at managing numbers on the Unemployment benefit, there remained an 'almost uninterrupted upward movement' in the take-up of the Domestic Purposes benefit, Sickness benefit and Invalids benefit, to the recipients of which the active case management model did not apply (Brown and Quilter, 1997, p. 44).

The DSW was convinced that the overall increase in benefit reception could only be halted through the extension of active case management across the spectrum of benefits. One official has explained that the department's analysis of benefit trends over the 1990s had led it to decide 'long before [the formation of the coalition government] that employment policy had to be focused at working-age beneficiaries' (interview, 1998). The Employment Strategy presented the DSW with the opportunity to press for a policy commitment from government to extend that method to a wider range of beneficiaries.⁸ Presumably, the department would not have been unhappy to see the decisive Cabinet paper indicate that, in addition to those of working-age, 'new groups of beneficiaries' were to be included within the policy 'progressively over time' (Cabinet Office, 1997g, p. 1).

⁸ The department's thinking had been influenced by similar developments in Australia. In August 1997, an integrated delivery agency called Centrelink was established under the *Commonwealth Services Delivery Act 1997* (Wintringham, 1998b, p. 9). Centrelink, which is 'the Australian equivalent' of a Crown entity, delivers a range of income support and employment services to federal departments (Wintringham, 1998b, p. 9).

The strategic thinking which the DSW had undertaken prior to the Employment Strategy provided it with considerable momentum in the debate over the target population. In the opinion of one senior official it encouraged the agency to behave as if 'this [policy] was their idea' (interview, 1998). Even Peter McCardle has accepted that Roger Sowry's and his department's preferences prevailed in the debate. In fact, McCardle's view is that Cabinet's decision was virtually inevitable, given that 'Social Welfare staff were already case-loading. They were already going to employers to put people into jobs. You just couldn't resist it' (McCardle, interview, 1998).

3.3.2 organisational design

The position taken on 15 September propelled the coalition towards its second critical decision. Three months later, on 15 December 1997, Cabinet agreed to the 'full structural integration ... of the Employment Service, the Income Support Service and the Community Employment Group into a single stand-alone organisation under one Minister' (Cabinet Office, 1997c, p. 2).

The Cabinet minute conveys no sense of the intense and often furious debates over institutional design which preceded Cabinet's decision. Of all of the various tensions which informed the Employment Strategy, differences of opinion amongst ministers and officials regarding organisational form were perhaps the most fundamental and deep-seated. Within both G5 and, most especially, amongst officials schisms quickly opened between those who believed that the government's policy objectives could be achieved only through a full-blown structural integration of income support and employment services, and those who felt equally strongly that they could be met without engaging in major organisational change.

3.3.2.1 the debate within G5

There was some resistance within G5 to the prospect of institutional change, particularly from Wyatt Creech, who is convinced that the advantages of structural integration existed largely 'in McCardle's head' (Creech, interview, 1998). However, most ministers were well disposed to the integration of income support and employment services, and shared Bill Birch's assessment that:

... there was the inconsistency that [the Income Support and Employment Services] were both dealing with people out of work, one on the income support side, and the other one getting them back to work. The two did have an interface that needed to be developed, whether you did it in a co-located virtual department, or whether they needed to merge (Birch, interview, 1999).

G5's preference for some form of integration had largely been set at the point at which ministers decided to target all working-age beneficiaries. McCardle's original intention was to focus on those who were formally registered as unemployed and, in particular, to the long-term unemployed. In June 1997 there were 162,580 registered unemployed, of whom 82,672 had been registered for more than twenty six weeks (NZPD, Supplement 10, 1997, pp. 3446-3447). The total pool of working-age beneficiaries, however, amounted to some 354,234 men and women (DSW, 1997b, p. 6). In effect, on September 15 Cabinet had more than doubled the size of the population which would require servicing. As one senior official put it, 'suddenly, instead of a relatively small, well, 150,000 is hardly a small group, but a smaller target group of unemployed beneficiaries, it [the target population] blew out' (interview, 1998).

That choice had major consequences for the design of the institution which would be required to administer the government's employment and benefit policies. During the early months of 1997, the ODWG had been developing a range of organisational options for consideration by ministers. By May, the group had designed several 'high level' organisational forms which the requisite delivery arrangements might take. They ranged from an Integrated Delivery Model, which provided for a single agency responsible for all aspects of employment and income support policy, through to an Integrated Planning and Purchase Model, which was an 'enhanced *status quo* option' based upon the 'virtual' integration of existing agencies' functions (ODWG, 1997b, pp. 13 -14).⁹

The 15 September decision reduced the appeal of virtual integration to ministers. It was clear (at least to some) that 'having a structure to deal with just long-term unemployed, and having another for people who were unemployed but not long-term, didn't make a lot of sense' (official, interview, 1999). Instead, the case for structural integration became compelling once Cabinet opted for an expanded target population (Birch, interview, 1999).

The principal contest amongst ministers was not over the principle of structural integration *per se*, but over the type and scale of integration which should be pursued. Specifically, Roger Sowry took issue with Peter McCardle's intention to merge the Unemployment Benefit Division of the Income Support Service with the Employment Service, and to do so without including the other forms of income support available to working-age beneficiaries. The problem for McCardle, as officials were at pains to point out, was that 'there never was such a thing as the Unemployment Benefit Division in Income Support. Unemployment

⁹ Those functions included generic information provision, the purchase of education, training and community work initiatives, the assessment and payment of income maintenance for job seekers, individualised employment assessment and planning, the matching of job vacancies with individuals, other employment assistance activities, and the development of community initiatives (ODWG, 1997b, p. 13).

benefit was just one benefit, but it was always administered by a single agency along with all the other benefits' (official, interview, 1998). Alf Kirk remembers that the imaginary Unemployment Benefit Division 'caused a bit of a problem, because it was written into the bloody Coalition Agreement!' (Kirk, interview, 1998).¹⁰

McCardle's apparent confusion over the existing institutional arrangements within the DSW cleared the way for Sowry to promote a model which merged the administration of *all* existing income support instruments and employment programmes. From the outset Sowry's preference was for the amalgamation of the Income Support Service, the Employment Service and the Community Employment Group into a single, stand-alone organisation (Sowry, interview, 1998). The Minister of Social Welfare was, in fact, described as 'single-minded in his wish ... to establish Income Support as a stand-alone entity' (official, interview, 1999). To that end he spent considerable time convincing his Cabinet colleagues of the importance of retaining the corporate integrity of the Income Support Service (Sowry, interview, 1998). Unsurprisingly, given his position on applying the Employment Strategy to all working-age beneficiaries, Sowry's belief was that 'either you do nothing, or you go the whole hog and put the whole lot together. You don't just take the unemployment piece out and stick it over here, so that you end up with two agencies. You want a true one-stop shop' (Sowry, interview, 1998).

As he had in the debate on target population, Roger Sowry prevailed in G5 on the issue of organisational design. Bill Birch can recall the *ad hoc* group giving some consideration to 'whether you could maintain the two separate departments and try to get greater cohesion through co-location', but ministers eventually concluded that 'that seemed to be a half-way house that really wasn't going to work' (Birch, interview, 1999). On 25 November, G5 ministers:

... agreed, in principle, to [the] full structural integration of the Employment Service, the Income Support Service, and the Community Employment Group as a new stand-alone organisation which shall pursue, as its core business, the outcomes of the Government's employment policy and the payment of income maintenance (Peters, 1997, p. 3).

That decision was endorsed by the Cabinet Committee on Strategy and Priorities on 10 December at what was 'a fairly robust meeting' (Sowry, interview, 1998). Five days later,

¹⁰ The relevant passage enjoined the coalition's partners to 'accept in principle the integration of the New Zealand Employment Service, the *unemployment benefit division* of the New Zealand Income Support Service, the Community Employment Group and the Training Opportunities Programme's resources of the Education and Training Support Agency into one Employment Service' (Coalition Agreement, 1997, p. 25; emphasis added).

Cabinet agreed to implement what was essentially Roger Sowry's, rather than Peter McCardle's, vision of an integrated employment and income support agency (Cabinet Office, 1997c).¹¹

3.3.2.2 the debate within the bureaucracy

The contests over institutional form amongst officials were far more ferocious than those which occurred within G5, and revolved around the organisational models developed by the ODWG. Amongst other tasks, the group had been asked by G5 to develop:

1. a range of credible organisational design options for the delivery of the government's desired employment outcomes; and
2. advice on the functions, structure, accountability mechanisms and location within the public service of the proposed integrated agency (ODWG, 1997b, p. 2).

By mid-1997, the ODWG had produced two reports. In the first (ODWG, 1997a), officials surveyed the existing organisational architecture responsible for delivering employment and welfare policy, and assessed the extent to which it might expedite the government's goals. They concluded that there was a strong case for retaining the institutional *status quo*, rather than creating a new organisation (ODWG, 1997a, pp. 5-10).

However, ministers requested greater detail on organisational alternatives to that *status quo*, to which end the ODWG produced two more reports in May and June 1997, sketching several high-level templates for an integrated agency. In May (ODWG, 1997b) officials added a third option, the Integrated Purchase Model, to the two models they had previously outlined (the Integrated Delivery Model and the Integrated Planning and Purchase Model). That alternative comprised an agency whose activities were restricted to purchasing employment and income support services from either private or public sector providers.¹² And in June (ODWG, 1997c) they included a fourth possibility, the Added Model, which differed from the Integrated Delivery Model only in that the income maintenance function would cover all *work-tested*, rather than *work-aged*, beneficiaries.

At this point frustration set in amongst ministers. McCardle became increasingly irritated that ministers were being asked to consider 'high-level integration, low-level integration,

¹¹ At that meeting Cabinet did not take a decision on the governance arrangements of the new agency (see section 3.3.4 below), but did charge officials with reporting back 'as early as possible in 1998 as to whether the new agency should be a department or a Crown entity' (Cabinet Office, 1997c, p. 3).

¹² The paper also canvassed two second-order design options which corresponded to two of the primary models, but which incorporated means of addressing the deficits associated with each (ODWG, 1997b, p. 19). Officials proposed a Hybrid Integrated Delivery Model as a means of reducing the logistical issues associated with the Integrated Delivery Model, and a Hybrid Purchasing Delivery Model as a response to the absence of contestable markets which was likely to rule out the Integrated Purchase Model.

front-line, virtual integration, which was a favourite word which was really just co-location, etc.’ (McCardle, interview, 1998). He also believes that officials were drawing out the advisory process unnecessarily by ‘[coming] up with a whole series of options with a whole lot of complex issues within them. You could spend years just getting tied up in those if you didn’t watch it’ (McCardle, interview, 1998). Accordingly, the various models generated by the ODWG were rejected by ministers, and officials were told ‘to go back to basics’ (Kirk, interview, 1998) and to focus on the strengths and weaknesses of just two options: structural or virtual integration.

In Alf Kirk’s view ‘it soon became clear that there was a fairly major split between officials about where to go with the structural stuff’ (Kirk, interview, 1998). That split crystallised around those who supported structural integration, and those who favoured the virtual model. From the outset, the DoL firmly opposed major structural change. That opposition had emerged during the government formation process, in which context the department had apparently been ‘shocked, horrified ... at what [structural integration] would cost and what would be the benefits of pulling this together’ (official, interview, 1998). One official believes that from the outset the DoL was:

... not mentally prepared for [structural integration] being a possibility at all. By the time they came to our table, which was March 1997, my reading was at the operational end they hadn’t moved at all. They hadn’t moved from that position, and were still very angry about it. They saw it as a total affront (interview, 1998).

But the department’s position was also consistent with a loss of enthusiasm in some bureaucratic quarters in the late 1990s for using structural change as a means of securing responsiveness and efficiency gains out of the public service. Notably, in his 1998 Annual Report the State Services Commissioner called for greater recourse to non-structural means of gaining performance improvements from departments (State Services Commission, 1998a). More recently, the Commissioner has observed that ‘restructuring seems to have the attraction of an illegal stimulant [and that] [d]espite ourselves, we keep returning to that [as] the principal means of achieving responsiveness’ (Wintringham, 2001f, p. 3).

The DoL was especially concerned that, within what would be a large organisation, the employment focus would be submerged beneath the income support function. The point has been made that ‘the level of risk involved in failure in, or any interruptions to the delivery of income maintenance is huge’ (official, interview, 1998). From the DoL’s point of view, that risk was amplified by the decision to apply the Community Wage to all working-age beneficiaries, at which point ‘suddenly it [became] an agency that would be dominated by

people who came from the benefit administration side of the business by a ratio of about three to one' (official, interview, 1998). If the administration of income support became the major operational focus, Alf Kirk feared that 'you would wind up stifl[ing] innovation on the employment side simply because the culture of administering benefits is, of necessity, rather more cautious' (Kirk, interview, 1998). Bluntly, as framed by Kirk the issue was that:

... if you were a manager of an organisation in which you had \$40 million a month going out in benefits, and you had some employment programmes to run, which one do you concentrate on? I know which one I'm going to get my arse kicked on if I get it wrong (Kirk, interview, 1998).

Secondly, the DoL worried about the risks associated with implementing major structural changes and new policy initiatives simultaneously. 'In an ideal world', as one Steering Group member explained, 'you would not try and do everything at the same time. You wouldn't be trialing and implementing a whole new set of programmes at the same time' (official, interview, 1999). But given the coalition's intention to deliver its benefit policy reforms through the proposed new agency, that was precisely what looked likely to happen.

For the DoL, the convergence of institutional and policy reform 'certainly raised the risks for the successful maintenance of service standards through the transition' (official, interview, 1999). Officials worried that the transition to a new integrated agency would be characterised by 'reduced customer service due to possible loss of staff, decreased productivity, possible industrial relations disruption and the diversion of management resources to building the new organisation' (EISG, 1997n, p. 20).

They also identified a series of specific transaction costs which were likely to arise from the disruption to departments' existing structures. Purely in staffing terms, for instance, the DSW stood to lose up to 3318 staff (the number employed in the Income Support Service on 28 February 1998), while the majority of the 1294 staff employed in the Employment Service (as of 3 April 1998) were likely to be transferred to an integrated agency (NZPD, Supplement 3, 1998, p. 776). Moreover, to accommodate the loss of significant institutional capacity to a new organisation, and notwithstanding that they would also have relinquished some functional responsibilities, the two parent departments would subsequently have to reconfigure their internal operational arrangements.

Fourthly, the DoL advised that the location in separate agencies of the Labour Market Policy Group and the Employment Service would detract from its capacity to provide

ministers with advice which reflected a whole-of-labour-market focus. The DoL disputed the merits of the organisational division of policy and operations. In fact, its officials had been:

... doing a lot of work on strengthening the vertical linkages between policy and operations, and had come to the conclusion that policy advice that was not informed by an operational perspective was deficient, and was unlikely to be fully effective. So we had come to the conclusion that the piece of theology that had been developed in the 1980s in the State Services Commission about separating policy and operations was not something that was universally true (official, interview, 1998).

The removal of the DoL's principal delivery arm, the Employment Service, would 'mean that the links that we had been trying to build between operations and policy would be broken', and that the department's policy wing, the Labour Market Policy Group, would 'miss out on all that soft information, which is very hard to systematise, about what's actually going on out there' (official, interview, 1998). Moreover, the department was also worried that such an initiative would complicate the provision of advice to ministers on the activities of an integrated agency. A minister (or ministers) responsible for an integrated delivery agency would need to purchase separate streams of advice on the employment and income support aspects of that organisation's activities. And that, as Alf Kirk observed, generated a further debate about whether or not a new organisation would have its policy orientation 'shaped by labour market policy or by welfare policy. You know, which dog was going to wag the tail of this big agency?' (Kirk, interview, 1998).

Finally, the DoL had reservations about the consequences which the merging of two very different organisations would have for the culture of a new agency. As Alf Kirk has noted, prior to 1997 'most state sector reform [had] been about pulling agencies apart, which is a much easier job than try[ing] to jam two cultures, which were clearly different, into what was going to be a very big agency' (Kirk, interview, 1998). Throughout the Employment Strategy, the historical 'tension between the Employment Service and Income Support, and [the probability that] one was going to take over the other', meant that 'there was always bad blood between the two of them' (official, interview, 1999). Kirk, however, feels that G5 ministers understated the difficulties that would attend a merging of the Income Support and Employment Services. In his view, 'they were not comfortable cultures that were going to sit alongside each other', and ministers gave insufficient attention to the risks to service delivery that these differences in organisational orientation posed (Kirk, interview, 1998).¹³

¹³ There were early indications of these difficulties. For instance, only '19 out of 150 top grade and second grade staff in the Department of Work and Income' were recruited from the Employment Service (NZPD, Vol. 571, 1998, pp. 11 741-42). And in November 1998, barely a month after it came

For the DoL, then, ‘structural re-organisation seemed to be a 1980’s solution to the issue’, and it advised ministers to ‘explore the desirability of virtual integration’ (official, interview, 1998). That preference was based upon an assessment that while:

Mr McCardle’s maiden speech was very close to the policy as laid out in the Coalition Agreement, the world had actually moved on since 1990. First of all technology was enabling services to be provided in quite different ways. So while we understood the benefits that could be gained from the one-stop shop, we felt that the possibilities for doing that through the development of systems and using information technology were more likely to yield efficient outcomes than structural re-organisation (official, interview, 1998).

The DoL, however, became increasingly isolated in its opposition to structural integration, and felt that ‘the case against structural change was being pretty heavily downplayed’ (Kirk, interview, 1998). The agency did receive support from the Department of Prime Minister and Cabinet and the Ministry of Education, but no other department sided with the DoL on the matter. Initially, the State Services Commission was undecided on organisational form, and was prepared to ‘go through a process and see what we came across’ (official, interview, 1998). However, early on the ODWG visited a number of Employment Service and Income Support Service offices, and found themselves being:

... told by frontline staff: ‘The Employment Service and Income Support have to be brought together’. That is actually very powerful. You would think everyone would say, as their managers did: ‘No, no, no, you’ve got to keep this apart’. But if the frontline staff in both organisations are saying the same thing, it makes you think: ‘There’s something in this. This is more than just a politician’s bright idea’ (official, interview, 1998).

Some of that thinking percolated into the Commission, and in due course they, along with the Treasury, endorsed full integration. But the most enthusiastic advocate of structural integration was the DSW. As far as it was concerned, an integrated employment and income

into existence, the chief executive of the Department of Work and Income, Christine Rankin, proposed a code of conduct for employees. The code would have required staff to reveal to senior managers their personal political affiliations. That requirement appeared *prima facie* to be at variance with established guidelines concerning political activity engaged in by public servants in their private capacity. In the face of unfavourable media attention (and the lodging of an inquiry by the Opposition spokesperson, Steve Maharey, with the Human Rights Commission), Ms Rankin reviewed the offending provision, and chose instead simply to remind staff of the standard public service procedures relating to any intention by an official to stand for public office. In that context, it is worth noting the contents of a review of the department conducted by a former State Services Commissioner (Hunn, 2000, p. 6), which found that ‘the dominant culture ... is that which derived from the Income Support Service and it tends to be process driven and prone to rigidity.’

support agency was the logical administrative vehicle within which active case management practices could most effectively be extended to all working-age beneficiaries. Well before 1997 it was common knowledge within the bureaucratic community that Margaret Bazley, the DSW's chief executive, 'wanted to change the structure of Social Welfare', and the debate around machinery of government issues quickly included 'another agenda running in and around the circle, which was the structural change of Social Welfare' (Kirk, interview, 1998).

The Income Support Service 'was very enthusiastic [about structural integration]. They saw it as an opportunity to grow their business. They hadn't thought through the detail, but they just saw this as providing them with a great big opportunity' (official, interview, 1998). The DSW supported institutional change for several reasons. First, it believed that the Income Support Service possessed the organisational capacity required to administer the government's employment and income support policy reforms. As one of the DSW's officials has explained, prior to the establishment of the Income Support Service in 1992 income support had been administered by 'the old Benefits and Pensions Division of DSW [which was] a large division, tired, dowdy feel to it, good staff, but poorly managed' (interview, 1998). That Division, which had been characterised by 'old, inflexible systems and a cost-plus mentality' (official, interview, 1998) was replaced by an Income Support Service committed to delivering 'a fast and professional assessment and payment service' (Petrie, 1998, p. 55).

By early 1997 the Income Support Service had developed into a 'big delivery engine with economies of scale [which did] a whole range of things really well, and which you couldn't easily split apart' (official, interview, 1998). That much had not been lost on ministers. Bill Birch, for one, noted that the organisation 'had developed itself into a pretty efficient, highly focused agency under Margaret Bazley', and that G5 ministers had been especially 'impressed with their development of Call Centres and their willingness to access data' (Birch, interview, 1999).

For these reasons the DSW was well placed in the debate over the nature of the proposed agency, and it used that position to vigorously promote the merits of structural integration. Most obviously, by providing just 'one point of contact for ... employment and income support services', structural integration was likely to 'ensure a stronger focus on work as the desired outcome for all working-age beneficiaries' (EISG, 1997d, p. 2). For some time the DSW:

... had been moving into the employment field. It was the natural extension of moving away from what they'd describe as passive benefit payment to

actively case managing people so that they have goals set when they go onto a benefit about how they get off it. Actually, their frontline staff were pushing hard into some of the employment territory [and] that had been going on over the previous few years (official, interview, 1998).

Others, too, had noted that 'Social Welfare had been quite aggressively trying to take over the Employment Service's work for a couple of years' (official, interview, 1999). Given that development, it seemed sensible to the DSW to integrate employment and income support functions within a 'seamless and comprehensive service' (EISG, 1997d, p. 2). It was also clear that the preference of the DSW's chief executive was for an integrated agency which sat beyond her own department. In this regard, Margaret Bazley's 'vision was to have them taken out, Income Support, the Children and Young Persons Service, and the Community Funding Agency, and have them all established as Crown entities' (official, interview, 1998).¹⁴

The most compelling case for integration was that the location of all income support and employment-related services within one agency would minimise the costs (to both service users and government) associated with the delivery of those services. Rather than having to engage with two different agencies, a working-age beneficiary seeking employment could communicate with one case manager in a single organisation. The reduction in the duplication of administrative services would, the DSW argued, generate considerable fiscal efficiencies. In one of its final papers, Alf Kirk's Steering Group advised G5 that a net fiscal benefit of \$111,204,000 would likely accrue in the decade following a decision in favour of structural integration, compared with a net benefit of \$23,672,000 if virtual integration was preferred (EISG, 1997n, p. 11). Some officials believe that G5's eventual preference for full integration was driven by the efficiency criterion. One has suggested that:

... there was not a lot of evidence that officials could point to that would suggest that there were going to be big effectiveness gains. There's no reason to believe that the new operation won't be more effective, but we just didn't have any evidence available of rigour to say that would be so. So essentially the thing that actually [decided] it was we knew that full integration, on a cost/benefit analysis, looked cheaper (official, interview, 1998).

It remains one of Alf Kirk's enduring regrets that the deep differences between agencies, and in particular those which developed between the DoL and the DSW, were never resolved (Kirk, interview, 1998). One senior official has concluded that, at the point at which the

¹⁴ See footnote 15 for the statutory distinction between departments and Crown entities.

decision on organisational design was taken in December 1997, departments had simply retreated to:

... a straight positional bargaining approach. Each department was putting its position on the table and arguing. You had Treasury, who were looking for fiscal savings. Social Welfare, who, in retrospect, had always wanted Income Support to be set up as a stand-alone agency anyway. The State Services Commission was very passive in the whole thing. They had lost all the expertise they had had on organisational design issues. And so it came down to a paper which really set out the arguments, but said: 'Here are the departmental positions' (interview, 1998).

The paper in question was the last major piece of advice on machinery of government issues which the Steering Group put up to G5 before the matter was decided by Cabinet. Alf Kirk remembers it as having been an especially difficult paper to write, and recalls having to 'basically throw a tantrum' in order to get members of the Steering Group to move beyond the entrenched positions some departments had taken over the key design question (Kirk, interview, 1998).

Kirk was only partially successful. Uniquely amongst all of the papers generated in the Employment Strategy, that particular document contained a section in which the DoL, the DSW, the Ministry of Education, the Treasury and the State Services Commission each explicitly indicated their preferences on organisational design (EISG, 1997n, pp. 19-23). The departments' comments reveal enduring differences over the question of how best to deliver the government's employment policy. The DoL (and the Ministry of Education) stood firmly behind virtual integration as 'a stable end point in itself', and as the most likely route to positive employment outcomes (EISG, 1997n, p. 19). The DSW, on the other hand, supported a 'move to a fully-integrated stand-alone organisation' (EISG, 1997n, p. 21). However, it also called for a staged process of implementation towards that end, arguing that the risks associated with full integration would be more effectively managed if departments moved to a virtually integrated state before proceeding to full integration. Having identified 'significant cost savings' therein, the Treasury advised 'a direct move to full structural integration' (EISG, 1997n, p. 22). So did the State Services Commission, which saw a single organisation as 'the logical extension' of the convergence of the operations of the Income Support and Employment Services (EISG, 1997n, p. 23). Clearly, the structural option was also consistent with what G5 ministers considered to be a 'true one-stop shop' (Sowry, interview, 1998), and that, accordingly, was what was recommended to Cabinet.

3.3.3 institutional location

The debate around integration was resolved in conjunction with a related matter, the institutional location of the new organisation. At G5's 25 November meeting ministers expressed a preference for a stand-alone integrated agency, rather than one situated within an existing department. That position was duly ratified at the 15 December 1997 meeting of Cabinet (Cabinet Office, 1997c).

Alf Kirk has described the question of the new agency's location as:

... one of those [issues] that was the Rubicon that nobody would cross. Labour's view was that because it had a labour market function it should sit in Labour. Social Welfare didn't want it, and part of this was because they were trying to scale down the size of Social Welfare (Kirk, interview, 1998).

G5's decision was reached only after a protracted debate within the bureaucracy, with the departments of Labour and Social Welfare once again adopting opposing positions on the issue. The DoL, which had been 'very nervous about having this thing as a stand-alone agency', took the eventual decision 'pretty badly' (Sowry, interview, 1998). Conversely, the DSW had long since 'made a decision [that] even if there had not been a Department of Work and Income, Income Support would still have to be separated out [of the DSW]' (Kirk, interview, 1998).

The sense within the wider bureaucracy was that 'when McCardle ended up being Minister of Employment, [the Department of] Labour thought this was going to be a one-stop shop in Labour, and that they would take over Income Support' (official, interview, 1998). A DSW official is convinced that 'it just never occurred to Labour that it would not be in Labour, and the day the decision was made [to set up a stand-alone agency] it chilled them. They had never thought that could happen' (interview, 1998).

However, there was no significant political support for the DoL's position. Roger Sowry believes that the DoL's officials:

... woke up very late in the day to realise that not only was this whole thing going to be a total merger, it wasn't about their Employment Service getting a whole lot of the easy bits of Social Welfare and toddling on as they were. It was actually about them losing their Employment Service. You know, the elephant and the snail merger, that's essentially what it was; the huge and little. Well, that created big nervousness in the Department of Labour. Then

when they realised that that put at risk their ability to be in charge of it, they didn't take that very well, some of them (Sowry, interview, 1998).

Even Peter McCardle was equivocal about the merits of putting an integrated agency within the DoL. The department's own case for that outcome was that it would enable 'all major Government labour market interventions [to] be dealt with in one agency' (EISG, 1997n, p. 14). For his part, the Minister of Employment 'was relaxed, actually. I certainly wouldn't have agreed to it being within Social Welfare [but] I was relaxed about it being within Labour, or on its own. Stand-alone struck me as a good result' (McCardle, interview, 1998).

Stand-alone also struck a number of departments as the right option. The DSW, the Treasury and the State Services Commission endorsed it as 'a better mechanism [for] ensur[ing] that the integration is a merger rather than a takeover' (EISG, 1997n, p. 14). In the DSW, in particular, it was:

... quite clear that the Employment Service should not come in here and be added to Income Support. Likewise, I didn't see it was an option for Income Support to be added to the Employment Service. We were quite clear that [stand-alone was] what should happen. It was never an issue for us, because I could never in a thousand years see that anyone was going to put Income Support in Labour (official, interview, 1998).

The DSW received forceful support from its minister. As far as Roger Sowry was concerned, 'it was never, ever in my mind an option that it be anything other than a stand-alone delivery agency' (Sowry, interview, 1998). On this count Sowry was quite:

... clear where I was going, and once [McCardle] realised that it was going to be merged, and we'd agreed on the full merger, then I think it became obvious to him that it couldn't work within the Department of Labour. And that he had the opportunity to have a chief executive and a whole department of his own (Sowry, interview, 1998).

3.3.4 governance arrangements

Roger Sowry's reference to a 'department' alludes to the last of the four core debates which determined the institutional parameters of the integrated employment and income support agency. That dispute concerned the governance arrangements which were to wrap about the

activities of the new entity. Specifically, what was at issue was whether it would be legally constituted as a department or as a Crown entity.¹⁵

The matter was decided on 9 February 1998, when Cabinet opted to establish the new agency as a department (Cabinet Office, 1998j). Unusually, however, the conflict which preceded that decision was more pronounced in G5 than it was amongst officials. On the one hand, Roger Sowry and Wyatt Creech were firmly in favour of establishing a Crown entity. Creech's view was that 'as the devolved, bulk-funding model of doing it', a Crown entity was much more likely to deliver services efficiently and effectively than was 'the totally centralised bureaucratic structure' preferred by Peter McCardle (Creech, interview, 1998).

Sowry, too, had concerns about the capacity of a department to deliver the government's Employment Strategy, and would have preferred the sorts of disciplines which an appointed board could have brought to the delivery of the Strategy. He regarded the outcome of what was 'a fairly heated discussion' around governance arrangements as a lost opportunity to devolve service delivery beyond the departmental sector (Sowry, interview, 1998). Sowry's sense is that the decision to establish a department was chiefly borne out of a fear, which 'was shared by one or two on our side of the Cabinet table too' that if 'we made it into a Crown entity we would privatise it' (Sowry, interview, 1998).

New Zealand First's ministers did not share Roger Sowry's wish for greater contestability in the supply of income support and employment services. As far as Winston Peters was concerned 'that was humbug. This was a central government obligation [and we had] to have direct ministerial responsibility. Why would you want to give a minister the chance to hide behind Crown entity failure?' (Peters, interview, 1999). McCardle, for similar reasons, was also 'certain it needed to be a department' and that 'a Crown entity, being arms-length from the minister, was not what was required in the first instance' (McCardle, interview). As inferred by Roger Sowry, there was some support for that position amongst other National ministers. Bill Birch, in particular, 'felt in the end that it was more appropriate that it should be a department rather than a Crown entity because it was essentially part of the government's core business' (Birch, interview, 1999).

¹⁵ In New Zealand, government departments are listed in the First Schedule of the *State Sector Act* 1988. They are headed by chief executives who are appointed by the State Services Commissioner, but responsible to their portfolio ministers for the management of their departments. The Crown entity sector comprises 'a large group of quite disparate agencies that share certain reporting and accountability requirements' (Cabinet Office, 2001, p. 38) but which enjoy an arms-length relationship with Cabinet. Crown entities, which usually have delivery functions, are listed in the Fourth Schedule of the *Public Finance Act* 1989. Unlike departments, Crown entities are legally separate from the Crown. They are governed by an appointed board which is accountable to a Responsible minister, but which delegates responsibility for the day-to-day operations of the entity to a chief executive (who, in turn, has been appointed by that board) (Cabinet Office, 2001a).

As far as the departments were concerned, Treasury and the State Services Commission were firmly convinced that in the interests of minimising 'fiscal and operational risk' the stand-alone agency should be set up as a department (Wintringham, 1998a, p. 11). But the DSW supported their minister's position, and 'was probably the strongest one for a Crown entity' (Kirk, interview, 1998). For that agency, while 'benefit delivery will always need to be delivered by the state, you [need] a model which gets it as far removed from the centre of the state as you can' (official, interview, 1998). A Crown entity promised considerable flexibility of service delivery, and the DSW felt that 'it would be a retrograde step not to take [the] opportunity to move the provision of this service out of the core public sector' (Wintringham, 1998a, p. 13). That assessment was strongly influenced by the DSW's chief executive, who was 'a great believer that boards give you incentives and flexibility', and who had, during an earlier tenure as chief executive of the Ministry of Transport, 'spun everything out as Crown entities' (Kirk, interview, 1998).

Uniquely, on this count the DoL agreed with the DSW. Indeed, once the DoL had lost the battle over the location of the integrated agency, the respective chief executives decided that the new organisation should be a Crown entity (official, interview, 1998). For the DoL, that arrangement would 'appropriately distance Ministers from day to day operations, while continuing to enable ministerial involvement in major strategic or policy issues' (Wintringham, 1998a, p. 12). It would also ensure that the departments received the appropriations for the purchase of the Crown entity's services.

There was some residual resentment within the DSW, in particular, regarding the two agencies' failure to convince G5 of the merits of adopting the Crown entity model. A DSW maintains that while:

... it's too late to fix it up, it is something that's wrong with that organisation. It should have been a Crown entity, and it was McCardle who did it. If we, as officials, had all stuck together from the beginning, we might not have ended up with this decision. It was the fact that initially Treasury and the Commission were on one side, and Labour and us were on the other, and Treasury came over with us. If the four departments had gone in and said: 'It should be a Crown entity', then we might not have ever given McCardle the opportunity to run his agenda (interview, 1998).

Such was not to be the case. In fact, the issue triggered tensions with the coalition which became very serious indeed. A senior official is adamant that at a Cabinet committee meeting which preceded Cabinet's 9 February decision:

... all the ministers, including Peters, came down with the view that it would be a Crown entity. Except McCardle. And McCardle threatened to walk if he didn't get his own way. So the New Zealand First people changed and supported him, and that is how it came to be a department (interview, 1998).

None of the ministers interviewed for this study confirmed that assessment. Some, including Brian Donnelly, who 'never, ever heard [McCardle] even suggest that sort of thing' (Donnelly, interview, 1999), simply dismissed it. McCardle himself, however, has obliquely alluded to the strength of his feelings on the governance question by acknowledging that 'from time to time we took very powerful, determined positions that weren't always that popular with National' (McCardle, interview, 1998). Tellingly, he has also conceded that on this particular matter he had made it clear to Winston Peters that 'this is a bottom line', and that it then 'perhaps became a matter of how hard you were prepared to drive on it' (McCardle, interview, 1998). McCardle emphatically denies, however, ever having threatened to bring the government down (McCardle, interview, 1998).

In any event, irrespective of the veracity of the observations of officials regarding Peter McCardle's conduct, the empirical record reveals that, contiguous to its 15 December 1997 decision to create a stand-alone agency, on the 9 February 1998 Cabinet opted to constitute that agency as a government department (Cabinet Office, 1998j).

3.3.5 of politicians and bureaucrats

The February 1998 decision brought to a close the process through which the operational and structural parameters of what was to become the Department of Work and Income were determined. There remained several unresolved issues which cannot be encompassed in this chapter. The mechanics of the process of transition to the new agency were far from clear; the role of the Regional Employment Commissioners was opaque; a contest took place between Sowry and McCardle over the identity of the new department's Responsible minister; and there were lingering concerns that the sourcing of policy advice from two agencies (the DoL and DSW) regarding the operations of a third (the Department of Work and Income) would prove cumbersome.¹⁶

3.3.5.1 ministers on officials

G5 would continue to meet until the formal establishment of the Department of Work and Income on 1 October 1998 (Sowry, interview, 1998), but by 9 February the work of Alf Kirk's Steering Group had been completed. For both ministers and officials it had been an

¹⁶ These and other issues are canvassed in State Services Commission (1998h) and Hunn (2000).

exhausting and stressful year. Amongst G5 members there is a consensus that responsibility for much of that rests with officials, and to differing degrees ministers all felt that the process became unnecessarily protracted as a consequence of 'some filibustering' (Sowry, interview, 1998) amongst officials, and, more specifically, as a function of each department having 'develop[ed] their own department line, and defend[ed] their departmental patch' (Creech, interview, 1998).

The former Deputy Prime Minister is trenchant in his criticism of the behaviour of officials. Winston Peters 'had a general sense of extraordinary reluctance on their part', and is convinced that officials endeavoured to take 'a very simple policy and complicate it in every respect possible' (Peters, interview, 1999). Other ministers have more forgiving interpretations of the conduct of officials. Roger Sowry 'can understand that people were sitting there thinking: 'I wonder where my job is in this?' [and that] that created a degree of nervousness' (Sowry, interview, 1998). However, he also believes that while 'officials are great at reforming things that don't involve themselves, once you start to merge Income Support and Employment into a new stand-alone department, that created huge amounts of tension at official level' (Sowry, interview, 1998). Sowry also senses that (a) few in the public service believed that the government would implement integration, and (b) that (with the exception of the chief executive of the DSW) its decision to do so came as a considerable shock to officials. Sowry can:

... remember vividly the day that G5 signed off on the stand-alone department. There was some quite vehement opposition from some of the officials which was more to do, I think, with that it had just never dawned on them that we would actually bite the bullet to that degree. And it was more to do with their own positions and patch protection. It wasn't to do with delivery of service. So the next thing, once they realised that was happening, they then went into a whole phase of: 'Well, this is going to take eighteen months to deliver'. Of course, we had to scrunch that delivery time right down to make sure that it did happen. Procrastination is a great way of making sure things don't happen in the public service (Sowry, interview, 1998).

The question of the timeframe within which the new department was to be set up caused deep disagreement between ministers and officials. Cabinet had decided on 15 December that the new agency was to be established by 30 September 1998 (Cabinet Office, 1997c). For New Zealand First, in particular, it was important that evidence of the benefits of integration flowed quickly into the public domain. The Employment Strategy was, after all:

... our policy. This was our platform, and we seemed to be dithering. Although there was a whole lot of work being done, from the public's point of view it was: 'Where are all these guys on the hillsides cutting down gorse? We can't see any, so what have you delivered?' So, yes, it was important from our point of view that we had something achieved, so that we could say: 'Look, there is something we've done' (Donnelly, interview, 1999).

Some members of the coalition's senior partner appreciated the electoral imperatives facing New Zealand First. For instance, Wyatt Creech has acknowledged that:

... if New Zealand First had gone through the first term and had nothing to show for it, they would have been dog-tucker, because it was a central plank of their policy. So it was really set up half-cocked. I mean, no official said that everything was in great shape, but Peters said: 'We're going to do it' (Creech, interview, 1998).

But progress was also in the interests of the National party, for the simple reason that, as Creech puts it, 'if we spent three years pissing around on this policy, no one would take us seriously' (Creech, interview, 1998). In the event, the decisive intervention occurred at about the time that Jim Bolger was replaced as leader of the National party and Prime Minister by his Minister of State Services, Jenny Shipley. Following a challenge within his caucus, Bolger resigned both positions on 4 November 1997. However, the leadership change came as a complete surprise to the leader of New Zealand First, and although the new Prime Minister immediately affirmed her commitment to the coalition, Winston Peters was equivocal about his party's position.¹⁷ In fact, it was not until 16 November, some two weeks after National's leadership change, that he announced that New Zealand First would remain part of the government (Main and Bell, 1997).

Peters put the interregnum to good effect, however, and in a memorandum of understanding between himself and Prime Minister Shipley secured a commitment to '[a]sk[ing] Ministers and officials to overcome the log-jam on Employment initiatives' (Shipley and Peters, 1997, p. 1). At the time Peter McCardle suggested to his leader that the reference to a 'log-jam' 'was not really helpful', but appreciated that 'basically Winston used [the leadership change] to make sure there was agreement with the new Prime Minister that we were going to deliver the Employment Strategy' (McCardle, interview, 1998).

¹⁷ Indeed, it seems that Winston Peters went as far as to approach the Labour party's leader, Helen Clark, and raise with her the prospect of her party forming a government with New Zealand First's support (Main and Bell, 1997).

There are divergent views on whether or not the change of leadership in the National party had any bearing on the eventual decision to proceed with full integration. Peter McCardle 'wouldn't over-rate it' as a variable (McCardle, interview, 1998); neither would Roger Sowry, who believes that although 'we were churning a bit at that point ... the decision to unpack that didn't need the leadership change' (Sowry, interview, 1998). Some officials beg to differ. In the DoL, for instance, there was a view that the:

... former Prime Minister was much more inclined to question proposals involving a lot of structural change, and really dig into whether they were the best way of achieving the outcome. That was probably his innate caution, but also his very long experience of government, and of seeing some things that worked, and some things that didn't work. His departure meant that that cautious note had gone (official, interview, 1998).

Similarly, Alf Kirk has pointed out that because 'Bolger had been a Minister of Labour, he understood all those inter-relations. I remember talking to DoL officials after the change of Prime Minister, and I said: 'The structural thing is going to happen now'. But Bolger was always very chary of it' (Kirk, interview, 1998). Conversely, some officials felt that the new Prime Minister 'was more strongly inclined to do it [structurally integrate]. Having been an ex-Minister of Social Welfare, she could understand the whole direction, as well as see the bigger machinery issues' (official, interview, 1998). For a short time, however, it looked as if the government was going to unravel completely. Indeed, Peter McCardle is in no doubt that:

Winston was considering pulling out in the first hours after [the leadership change], and came close to it when he heard about what happened, and he hadn't been warned of it or consulted by the team that ousted Bolger. So looking at the occasion and the whole situation, if we were going to stay, then we were going to break through the so-called log-jam, and get things going (McCardle, interview, 1998).

3.3.5.2 officials on ministers

Things eventually did 'get going'. Shortly after Jenny Shipley took over as Prime Minister, Cabinet nominated 30 September 1998 as the start-up date for the new agency, and that timeframe was adhered to. Few officials disagree that the Employment Strategy was 'taking everyone in places they didn't want to go, pulling some back and pushing some forward' (official, interview, 1998), but most contest the accusation that through the better part of 1997 officials were 'dragging their heels' (Creech, interview, 1998). A former member of the Steering Group believes the reverse was the case. That person's view is that:

... in the latter part of '97 there was this incredible feeling that we have got to get through this. We have set off this big, monster process, and we are not getting any results except bleeding noses and unhappy people. So we have just got to drive this through. We have got to speed it up if we are ever going to get there (official, interview, 1999).

It was certainly felt that the timeframe set by Cabinet verged on the heroic, but one official vigorously denies that there was a concerted effort to impede progress, indicating that there was 'certainly not a meeting of minds that said: 'This was nonsense, and we are just going to muck around on it'. [Instead] there was strong patch protection, and huge disagreement about the detail, and that [is what] held it up' (official, interview, 1998). In fact, to the extent that there were delays, they were perceived in some bureaucratic quarters to have been related to the way in which G5 operated. In the view of one senior official:

... a good bit of the so-called delay was simply the difficulty of getting ministers to meet and address the issues. With *ad hoc* meetings there are straight logistical issues, like getting diary space and getting them all there. The decision-making process was not all that fast, but it was convenient to blame all that on a log-jam problem and on officials arguing with each other. I don't think there were even political difficulties in making the decisions once [ministers] got around the table and addressed the issues, but getting to that point took time (interview, 1998).

Of greater concern to officials was the feeling that there was confusion within G5 about what ministers wanted from the departments. Advisers frequently felt that:

... you had this situation where you had the solution, but you weren't too sure what the question was, and you weren't sure if you were developing a set of policy proposals or suggesting a way to implement what had already been decided. That caused a tremendous amount of wheel-spinning (Kirk, interview, 1998).

There is a sense, too, that some ministers were reluctant to engage with officials' advice. Alf Kirk had the clear impression that 'McCardle was only interested in his Employment Strategy. He would even grizzle about having to go to meetings where other issues were being discussed' (Kirk, interview, 1998). Another official recalls that 'the arguments were always being summarised, and summarised, and summarised, so that they became crude and often lacked meaning. Ministers didn't want to read long papers, but the more you condensed the arguments, the less meaning there was in them' (interview, 1999).

Specifically, Kirk believes that because ‘some ministers just wanted to see the one-stop shop set up, talking about virtual integration wasn’t a very popular view’ (Kirk, interview, 1998). For that reason, his assessment of G5 is ‘fairly negative, partly because I always felt the group never engaged in the debate [about employment policy]. So at the end of the process, ministers were no more aware of what they were buying into than they were when they started’ (Kirk, interview, 1998).

Some officials harboured particular concerns about Peter McCardle’s facility with the key policy debates. Kirk remembers becoming alarmed when:

... we had an enormous battle with McCardle in regard to community work and training. He had this broad vision that everyone was going to be in community work. We’d say: ‘But there are such things as displacement’, but he’d say: ‘Oh yes, yes, but you know, we could have 300,000 in community jobs’ (Kirk, interview, 1998).

Others have echoed Kirk’s reservations about the Minister of Employment. A DSW official constantly felt that McCardle:

... had difficulty understanding what you were telling him. That presented an on-going difficulty, because you would spend hours briefing him about something, and think that he understood what you were telling him, and then you’d find that he hadn’t. That was difficult. Usually you walk out thinking: ‘I’ve told a minister that, so I’ve got that behind us’, but you never had that feeling with Mr McCardle (interview, 1998).

A number of officials had difficulty working with Winston Peters. One recalls that ‘he used to bellow and perform at us that it wasn’t moving fast enough’ (official, interview, 1998).

That person also remembers that:

... most of the time [Peters] had some court case [and] you always felt that he was everywhere but where he should have been. He would be sitting at the end of the table with his mug of tea, and all his pens set out around him, and there would be constant to-ing and fro-ing. He’d be going out to speak with this reporter or that reporter on the phone, then out to have his smoke. So with Peters it was really that his mind was elsewhere (official, interview, 1998).

Working relationships with other ministers were more fruitful. The Minister of Finance receives particular credit for his *de facto* stewardship of the Employment Strategy. In Alf Kirk's experience 'meetings were different when Birch was in the chair as opposed to when Peters was in the chair, to be brutally frank about it' (Kirk, interview, 1998). In fact, amongst many officials there is a sense that 'at the end of the day, Mr Birch's view very often prevailed [because] he could still push things along very strongly ... he would just keep it all ticking over' (official, interview, 1998).

Nonetheless, there remains a view amongst some senior public servants that the decision to establish an integrated, stand-alone department was a flawed one. Although their specific analyses of those shortcomings differ, each of the major departments has cause to believe that G5 ministers acted without taking full cognisance of officials' advice. That it is the prerogative of ministers not to act on the advice of their officials has not mollified some senior bureaucrats, at least one of whom believes that:

... at the end it came down to straight political symbolism. The decision was entirely political. New Zealand First had to get some runs on the board. You know, they had been in government for the best part of a year, and I think they felt that they didn't have a lot to show for it to their supporters, and so this was it. This was where they were going to fly their flag. There had to be something about which they could wave a flag. This was the achievement of the coalition, and it was concrete (official, interview, 1998).

3.4 Through the House

The legislative enactment of the government's decisions was a complex process, one which was inordinately complicated by the implosion of both New Zealand First and the coalition itself as the requisite legislation moved through its final stages on the floor of the House of Representatives.

Three pieces of legislation gave effect to the Employment Strategy. The first, a short document comprising eleven clauses, was introduced by the Minister of Employment on 31 March 1998. The *Employment Service and Income Support (Integrated Administration) Bill* provided for the delivery of income support and employment services through a new Department of Work and Income.¹⁸ It was referred to the Government Administration Select Committee, which was tasked with reporting back by the 30 September 1998. The

¹⁸ The legislation did not formally create the department. That occurred in late June, when the Department of Work and Income was added to the First Schedule of the *State Sector Act 1998* via an

Bill was to come into force on 1 October 1998, the day the new department was to commence operations.¹⁹

To maintain political face, legislative provision for the Community Wage was provided for by two pieces of legislation. The *Social Security Amendment Bill (No. 5)*, which was sponsored by the Minister of Social Welfare, introduced the Community Wage (which had previously been publicly announced by the Minister of Employment) as the replacement for a range of existing benefits (the Unemployment benefit, Sickness benefit, 55+, Training benefit, and Young Job-Seeker's allowance) (NZPD, Vol. 568, 1998, p. 8644).²⁰ Roger Sowry's Bill was introduced and passed through all stages under urgency as part of the 1998 Budget process, and so was not referred to a select committee. It received its Third Reading on 14 May 1998, comfortably passed the House with a majority of twenty two, and the bulk of its provisions came into effect on 1 October 1998 (NZPD, Vol. 568, 1998, p. 8804).

The provisions of the Community Wage were extended in Peter McCardle's *Social Security (Work Test) Amendment Bill*.²¹ Although it too was introduced under urgency, McCardle had

Order in Council (NZPD, Vol. 570, 1998, p. 11325). Peter McCardle announced the trading name of the new department, Work and Income New Zealand, on the 21 June 1998.

¹⁹ The date originally nominated by Cabinet for the establishment of the new agency was 30 September 1998 (Cabinet Office, 1997c, p. 2). McCardle's Bill included provision for:

- the establishment of the new department by Order in Council under the *State Sector Act* 1988;
- the new department to have responsibility for the *Social Security Act* 1964 (previously the responsibility of the DSW) and other legislation;
- the transfer of staff from the existing departments of Labour and Social Welfare into the new Department of Work and Income.

²⁰ The Bill's principal provisions included:

- a reduction, effective as of 1 July 1998, in the rate at which the Sickness benefit was paid, until its eventual abolition in October of the same year;
- the introduction of work capacity assessments to which all Community Wage earners (and all other work-tested beneficiaries) were required to submit;
- the extension of work-testing to all Domestic Purposes benefit and Widows benefit recipients, and the spouses of other beneficiaries, from 1 February 1999, and the extension of out-of-school-care costs to parents on low incomes with children between the ages of five and thirteen;
- the introduction of a new rate of benefit payable to young people under the age of twenty living at home and in receipt of either a Young Job-Seeker's allowance, or the Unemployment benefit, Training benefit or Sickness benefit (which would be paid at 80% of the previous rate);
- an increase from one to two years of the residential qualification (excluding immigrants from Australia and Britain) for access to the Sickness benefit, Unemployment benefit, Independent Youth and Training benefits, and the Young Job-Seeker's allowance.

²¹ The Bill included the following provisions:

- in order to receive the Community Wage, beneficiaries would be required to be available for community work and/or training for up to twenty hours per week;
- while in receipt of the Community Wage, beneficiaries would receive an additional \$21 to cover travel costs, and in addition could apply for a further \$20 to cover 'actual and reasonable' costs;
- beneficiaries who refused to work would be given a five day period of grace, following which a second refusal would incur a suspension of the Community Wage for a minimum of one week, while a third refusal would trigger a thirteen-week non-entitlement period;

his Bill referred to a select committee (NZPD, Vol. 568, 1998, p. 8839). Submissions to the Social Services Select Committee closed on 26 June, and the committee was charged with reporting back to the House by 3 August 1998. The committee stage was a contentious one, for to the consternation of opponents of the legislation, only two days (one each in Wellington and Auckland) were set aside to hear oral submissions. As a consequence, some of the thirty six groups and individuals who spoke to their submissions received only a matter of minutes to do so (NZFVWO, 1998c, p. 2).

On the 18 August 1998, the *Social Security (Worktest) Amendment Bill* received its Third Reading; the House also began debating the committee report on the *Employment Service and Income Support (Integrated Administration) Bill*. But more momentous events were unfolding elsewhere within the parliamentary complex, for on that day, too, Peter McCardle and seven other New Zealand First MPs resigned from their party (and pledged to support the new National-led minority government on matters of confidence and supply).

The causes of the collapse of the National/New Zealand First coalition are multiple and contested, and, as it occurred after the key decisions with which this thesis is concerned were taken, only a brief sketch of the event is provided here.²² Briefly, on the 12 August Winston Peters and his four fellow New Zealand First ministers walked out of Cabinet, ostensibly over the proposed sale of the Crown's stake in Wellington Airport (Cabinet Office, 1998b). Two days later Prime Minister Shipley advised the Governor General to dismiss Peters as Treasurer, Deputy Prime Minister, and as a member of the Executive Council (Cabinet Office, 1998e). Wyatt Creech was appointed Acting Deputy Prime Minister, Bill Birch assumed the role of Treasurer, and the four other ex-New Zealand First ministers (Tau Henare, Peter McCardle, Jack Elder and Tuariki John Delamere) were advised that they retained their ministerial responsibilities 'for the time being' (Cabinet Office, 1998e, p. 1). At 12.40 pm on the 26 August, the coalition between National and New Zealand First was formally terminated (Cabinet Office, 1998g).

The next day the *Employment Service and Income Support (Integrated Administration) Bill* received its Third Reading, and was passed by seventy one votes to forty nine (NZPD, Vol. 571, 1998, p. 11748).²³ Poignantly, the last word on the legislation was reserved for

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- should beneficiaries perform at work in an unsatisfactory manner, they would be liable for a reduction of up to 40% of their income during the relevant period (although spouses of beneficiaries so affected would be able to apply for a special needs grant up to the equivalent of half of the Community Wage).

²² For a detailed account see Boston, 2000a.

²³ McCardle's Bill was supported by members from the National, ACT, United NZ and New Zealand First parties, and by ten independent MPs (Neil Kirton, Alamein Kopu, Tuariki John Delamere, Deborah Morris, Peter McCardle, Jack Elder, Tau Henare, Tukuroirangi Morgan, Rana Waitai and

the senior whip of New Zealand First, the former coalition partner which had battled to have Peter McCardle's vision brought to fruition. By the time Ron Mark rose to give his brief speech, the Minister of Employment had left New Zealand First, the coalition had ceased to exist, and Mark's party had been shunted into opposition, where it languished in public opinion polls.²⁴ Nonetheless, Mark took the opportunity to make the point that:

... the Government would not be doing this if it was not for New Zealand First. I draw the attention of the House to the New Zealand First election manifesto of 1996. In its employment strategy New Zealand First laid out its plan to replace the Unemployment benefit with a Community Wage. ... It was negotiated into the coalition agreement, and the coalition Government moved accordingly, headed by the Hon. Peter McCardle, to see that vision become reality. ... I find it a little bit sad, but at the same time pleasing, that finally the acknowledgment is here, the recognition is here, the Bill is here, the support is here, and the votes and the numbers are here. This New Zealand First policy will be enacted (NZPD, Vol. 571, 1998, pp. 11746-11747).

And so it was. But for Peter McCardle, the dénouement came only three days after the final vote on his legislation. On the 30 August, Prime Minister Shipley announced her first Cabinet. McCardle was stripped of the Employment portfolio, and was named an Associate Minister of Social Services, Work and Income, reporting to the principal minister, Roger Sowry. (McCardle also assumed responsibility for Business Development and Consumer Affairs.) He lost his seat at the Cabinet table, and was demoted to the lowest rank outside of Cabinet. On the 22 October 1998, the former Minister of Employment announced that he would not be seeking re-election at the 1999 General election.

3.5 Conclusion

An experienced political journalist has commented that the fact that 'an inexperienced and little-regarded junior coalition minister could bulldoze through such complex, multi-

Ann Batten). It was opposed by the thirty seven Labour MPs and twelve Alliance members (NZPD, Vol. 571, 1998, p. 11748).

²⁴ In a One Network News/Colmar Brunton Poll released on the 10 August (N = 1000), only 2.6% of those questioned would have supported New Zealand First with their party vote had an election been held that day, 2% supported Winston Peters as preferred Prime Minister, and the coalition government had a 75% disapproval rating (One Network News/Colmar Brunton, 1998a). In a subsequent poll released on 21 September (N = 1000), New Zealand First's party support had slumped to 1.8% (although their leader's standing as preferred Prime Minister had climbed 1% to 3%) (One Network News/Colmar Brunton, 1998b).

departmental changes to the entire welfare system will be recorded, if not as a triumph, at least as a phenomenon' (Clifton, 1998, p. 19).

With the benefit of hindsight, it is fair to question whether or not the 'triumph' really did belong to Peter McCardle. Certainly he gained a one-stop shop, Regional Commissioners, and revised policy settings for long-term unemployed beneficiaries. But what was decided in the House went well beyond the parameters of his original employment policy objectives. The Department of Work and Income exists on a scale which vastly exceeds the merging of the imaginary 'Unemployment Benefit Division' and the Employment Service, and it administers policy which encompasses a target population considerably larger than the pool of long-term recipients of the Unemployment benefit. Peter McCardle got much more than he bargained for.

In fact, the institutional and policy outcomes of the Employment Strategy more closely resemble those which were sought by the coalition's Minister of Social Welfare. In an immediate sense, Roger Sowry secured a stand-alone agency (albeit a department rather than a Crown entity) administering a substantially reformed benefit system. In addition, the establishment of the Department of Work and Income was the critical first step towards a second set of institutional revisions which Sowry supported (and which McCardle had no position on whatsoever), as the de-coupling of the Income Support Service from the DSW was the prerequisite to the creation of the Department of Child, Youth and Family Services and the Ministry of Social Policy, and the abolition of the DSW itself on 1 October 1999 (Wintringham, 2000b). In this sense, it is not difficult to see why one senior official concluded that 'you'd have to say that what emerged [from the Employment Strategy] was more consistent with Sowry's agenda than with McCardle's agenda' (interview, 1998).

But what emerged was also strikingly consistent with the preferences of the DSW. It is tempting to explain the institutional consequences of the Strategy solely as a function of ministers' decisions, but to do so would be to overlook the significance of the DSW's forceful (and long-standing) support for a wider target population, full structural integration, and the establishment of a stand-alone agency. Clearly, ministerial advocacy of those positions was crucial to the decisions which were eventually taken, but those decisions were not reached in a policy vacuum, and the DSW prepared diligently and briefed its minister thoroughly throughout the Employment Strategy. Importantly, too, while Roger Sowry had been the DSW's minister for barely a year when Cabinet decided in favour of structural change, his officials had been championing the extension of their active case management model and the restructuring of their department well before the 1996 General election. The importance of that preparation was alluded to by a senior DSW official, who explained that the department's officials:

... had briefed [Roger Sowry] in great detail. We had big papers done on organisational form, and we spent a lot of time with him when he first became minister, going over it until he was satisfied with it. And once it was his position, it was ours, and so we were as one on all of those things (interview, 1998).

Having described the genesis and narrative of the Employment Strategy over the last two chapters, the point has been reached at which the respective contributions made by ministers and officials to those events require a more searching theoretical examination. That exploration is guided by the core research question: What were the determinants of the trajectory and outcomes of the organisational reforms which stemmed from the Employment Strategy? More specifically, the focus in this thesis on matters of institutional form demands a theorising of:

1. the motives of the senior bureaucrats within the DoL and the DSW regarding those changes;
2. the degree to which, respectively, ministers and officials exercised effective leverage over the structural outcomes; and
3. the extent to which institutional arrangements within the executive branch were relevant to the mediation and resolution of debates regarding institutional design.

That task commences in the following chapter, which sets out an economic model of bureaucracy as a prelude to assessing the capacity of public choice theory to account for the events set in train with the signing of the Coalition Agreement in late 1996. It continues throughout the rest of the dissertation, by the conclusion of which a detailed theoretical and empirical account will have been constructed of what was arguably the largest single episode in institutional change experienced in the post-reform New Zealand public service.

Part 2

Chapter 4 - The public choice model of bureaucracy

4.1 Introduction

Part 1 of this thesis set out the events, debates and decisions which constituted the Employment Strategy. At the conclusion of the previous chapter, the research question was restated, and disaggregated into three components. In the chapters which comprise Part 2 (chapters 4 to 6), those three issues are examined through the prism of orthodox supply-side public choice.

The empirical veracity of both orthodox and revised public choice accounts is the subject of later chapters, but that assessment cannot proceed without having first established the theoretical parameters of supply-side public choice, which is the objective of this chapter. Given the focus in this study on organisational reform, the specific intention here is to set out the theoretical case for budget-maximisation as a driver of institutional change within the bureaucracy.

Following a generic introduction to public choice, the discussion turns to the economic model of bureaucracy developed by William Niskanen. That model is constructed upon certain assumptions regarding bureaucrats' motives, and is critical of the institutional consequences of maximising conduct in the bureaucracy. Niskanen's account of the etymology and effects of budget-maximisation has been tremendously influential. Over the last thirty years administrations around the world (including those based in Wellington) have looked to it for inspiration when reforming the machinery of government (Boston, Martin, *et al.*, 1996; Parsons, 1995; Self, 1993; Shaw, 1999b). For that reason, and as a prerequisite to the analysis of the theoretical robustness (chapter 5) and empirical utility (chapter 6) of the economic model, the key features of Niskanen's framework receive close attention in this chapter.

4.2 Public choice

Public choice has been defined as 'the application of the principles of neo-classical economics to politics' (North, 1993, p. 159). It has also been described as a research programme, an intellectual paradigm and an organisational phenomenon (Borins, 1988; Buchanan, 1993; Lane, 1993; Paldam, 1993; Self, 1993; Sproule-Jones, 1988). Provocatively labelled the 'science of political failure' (Buchanan, 1988; cited in Lane, 1993, p. 154), the origins of public choice have been traced to a meeting held in Chicago in

1963, at which were gathered scholars who shared a common interest in applying the economic method to decision-making and policy implementation in the public sector (Sproule-Jones, 1988, p. 34).¹ Public choice has since developed into a broad theoretical tradition comprising various strands. Thus, there is a relatively new (and vigorous) debate regarding the nature of institutions which is canvassed in chapter 7. In addition, Dunleavy (1991, pp. 1-3) refers to the cleavage between the 'first principles' literature, which makes extensive use of game theory and algebraic economics in formally modelling the actions of rational actors, and 'institutional public choice', which takes a more traditional, inductive approach to its subject matter.²

There is also a distinction between demand-side and supply-side public choice analyses. Both employ the rational egoist postulate (see section 4.2.1 below). Supply-side accounts, with which this thesis is directly concerned, focus on the institutional arrangements and incentives particular to the bureaucracy, and which influence the *supply* of publicly funded goods and services. The demand-side scholarship of Black (1958), Buchanan (1962; 1986), Downs (1957), Mitchell (1983), Tullock (1965) and others explains the *demand* for that output as a function of self-interested conduct amongst politicians, voters, and interest groups. Thus, politicians are assumed to seek public office because it affords them utilities such as status, power, and influence (see Downs, 1957); interest groups lobby for policies which benefit them, the costs of which are externalised and borne by the wider society (see Borins, 1988; Martino, 1998; Tullock, 1993a); and voters express their preferences on the basis of strategic assessments of the personal gains to be had by casting a vote one way or another (or by not voting at all) (see Hartley and Tisdall, 1981; Tullock, 1993a).

4.2.1 core principles and assumptions

At the heart of public choice lie two assumptions. The first is that the fundamental unit of analysis is the individual. Methodological individualism describes the normative conviction that 'all decisions in society can be disaggregated into decisions made by individuals acting either alone or in concert with others' (Sproule-Jones, 1988, p. 36). This orientation suggests that analyses of the structures of, and behaviour within, the institutions of

¹ Tullock (1998) goes further back and locates the roots of public choice in theoretical work on the voting process conducted by mathematicians such as Condorcet, Borda and Laplace. Tullock also regards Duncan Black, who rediscovered those earlier writings, as the 'father of modern Public Choice' (Tullock, 1998, p. 1040).

² Dunleavy's use of the term institutional in this context appears not to refer to the secondary distinction between orthodox and new institutionalist rational choice accounts (as explored in chapter 7). Instead, the term is used to set apart that section of the rational choice literature which is concerned with political institutions, rather than abstruse mathematical formulae. Elsewhere, Mueller (1993) contains a series of prognoses concerning the respective futures of these two variants of public choice. In his view, there is an inexorable (and undesirable) trend within public choice towards the use of formal, rational actor models to account for the conduct of political actors.

representative government are legitimately conducted only in terms of the motives and actions of individual actors (Hall, 1986). For Ostrom, methodological individualism recognises 'the autonomous standing of individuals in the constitution of ... societies' (1993, p. 170), while in Niskanen's view '[p]urposive behaviour by individuals is the essence of social behaviour', such that 'theories of social behaviour that represent individuals as automatons in some social mass ... have rarely proved valuable' (1973, p. 20).³ The essence of the construct is succinctly captured in the argument that 'the basic [social] units are choosing units, acting, behaving persons rather than organic units such as parties, provinces, or nations' (Buchanan, 1984; cited in Lane, 1993, p. 155).

Buchanan's observation suggests a second property of methodological individualism, which is that the characteristics of aggregated constructs (such as legislatures, departments, and political parties) can be reduced to the features, propensities and inclinations of their individual constituent units (Hayek, 1955; cited in Lane, 1993). Individual choice is taken as the basis of all collective action, irrespective of institutional or organisational context. Public choice holds that 'each political action has to be interpreted as the aggregation of individual actions' (Malte *et al.*, 1997, p. 461): it is the preferences and conduct of individuals which count, rather than nebulous constructs such as the 'common good' or the 'public interest'. Notwithstanding that an institutional perspective has crept into public choice over the last two decades (see chapter 7), 'the rationality assumption has continued to be the mainstay of analysis' (North, 1993, p. 159), such that utility theory still dominates accounts of the behaviour of individuals.

Methodological individualism does not *ipso facto* suggest self-interest as a driving force for human agency. Nonetheless, the former construct does find its clearest expression in the notion of *homo economicus*, which contains the second pivotal public choice postulate (one which certainly does connote self-interest). Bound up in the notion of rational egoism is the belief 'that man [sic] is an egoistic, rational utility-maximiser' (Mueller, 1989; cited in Self, 1993, p. 2). The assumptions that individuals are driven by self-interest, and that it is rational to consistently engage in behaviour that is non-altruistic and self-serving, have a long and distinguished pedigree in classical economics (see Sen, 1977), and constitute the cornerstones of public choice (see Downs, 1957; Mueller, 1993; Niskanen, 1971; Ostrom, 1993).⁴ Rational egoism is the fulcrum of the definition provided by Dennis Mueller, who

³ Niskanen refers to Hayek's *The Counter-revolution of Science* as the best account of the 'problems and consequences of applying the models and methods of natural science to social behaviour' (1973, p. 20).

⁴ Elsewhere, Downs notes that 'in reality, men [sic] are not always selfish, even in politics. Politicians in the real world sometimes act as they think best for society as a whole even when they know that their actions will lose votes. In every field, no account of human behaviour is complete without mention of such altruism; its possessors are among the heroes men so rightly admire' (1957, p. 27).

has described public choice as the 'formal modelling of the self-interested behaviour of rational individuals in a political environment' (Mueller, 1993, pp. 146-147). The self-interest maxim squeezes out political and economic conduct that is other-regarding or publicly spirited. Given the assessment that much of what occurs in government is 'an unintended collective result of other intended individual activities' (Mitchell, 1983; cited in McCool, 1995, p. 133), there is little scope for entertaining the existence of a public good. Instead, public choice prefers the assumption that individuals' choices are predicated upon 'stable preferences and a rational consideration of alternatives and their consequences, where the alternative yielding the highest level of expected utility [to the individual] is chosen' (Lane, 1993, p. 177). This rather arid conception of human nature leads public choice theorists to conclude that individuals are inherently inclined 'to shirk, to be opportunistic, to maximize [their] self-interest [and] to act with guile' (Donaldson, 1990, p. 372). In the context of studies of bureaucracy, the message ingrained in such theories is that public officials require extensive policing, for they cannot, and should not, be trusted (Mitnick, 1975, p. 196).

4.3 Supply-side models - Niskanen and the economic model of bureaucracy

Supply-side public choice derives from the classical politics/administration dichotomy (see Wilson, 1887), and is motivated by a normative concern to establish 'the primacy of representative government over bureaucracy' (Aucoin, 1990, p. 115). Its proponents draw on theories of imperfect market competition and monopoly to derive insights regarding the 'allocative and technical inefficiencies and distributive inequities associated with the implementation of policy in the public sector' (Mitchell, 1983; cited in McCool, 1995, p. 128). The foundations of these economic accounts of bureaucracy were laid by Downs with his 1967 work *Inside Bureaucracy*. Downs' analysis supplemented Tullock's (1965) *The Politics of Bureaucracy*, and in 1971 William Niskanen published *Bureaucracy and Representative Government*, his ground-breaking contribution on the role of the 'missing actor' (Mitchell, 1983; cited in McCool, 1995, p. 128).

4.3.1 the budget-maximising bureaucrat

The notion that government bureaucracies are prone to over-production and inefficiency is at least as old as the distinguished constitutionalist Walter Bagehot, who observed, a century or more ago, that '[n]ot only does a bureaucracy ... tend to under-government, in point of quality; it tends to over-government in point of quantity' (1964, p. 197; cited by Dunsire, 1991, p. 178). Those sentiments are echoed throughout the contemporary public choice literature, for the proponents of which '[b]ureaucracy seems to have a particular fascination' (Self, 1993, p. 32). And in the view of many commentators (including Bendor, 1988; Blais and Dion, 1991a; Dunleavy, 1991; McLean, 1987; Mitchell, 1974, 1983;

Rowley, 1994), the intellectual antecedents and the current parameters of the public choice literature on bureaucracy were laid down in William Niskanen's seminal publication, *Bureaucracy and Representative Government* (Niskanen, 1971).⁵

Earlier public choice scholars, principally Tullock (1965) and Downs (1967), had raised questions about the supply-side operations of public agencies. However, they largely ignored the impact of external variables on the conduct of bureaucrats, and Niskanen was the first within the tradition to propose a sophisticated theory of the budget and output behaviour of the public sector.⁶ In the years since its publication, *Bureaucracy and Representative Government* has become something of a public choice icon, and its author is widely regarded as the 'outstanding student of public choice' (Rowley, 1994, p. vii). Niskanen's economic model has been described as the 'single most cited study' of bureaucracy (Bendor, 1988, p. 354); as 'one of the most provocative and debated models of bureaucratic behaviour' (Blais and Dion, 1991b, p. 3); and is still considered by many to be 'the most significant work yet produced by an economist on the role of bureaucracy' (Mitchell, 1974, p. 1775; cited in Rowley, 1994, p. viii). Furthermore, Niskanen's influence has spread well beyond academia. Not only has the 'budget-maximising bureaucrat achieved an honoured status in the folklore of public management' (Lynn, 1991, p. 59), but the normative components of Niskanen's model have become received wisdom in a great many political circles (particularly conservative ones), and have played no small part in the entrenchment of assumptions concerning bureaucratic inefficiency and government failure (Blais and Dion, 1991b).⁷

The three core elements of Niskanen's theory of bureaucratic supply have to do with (a) the features of bureaucracies themselves, (b) the nature of the relationship between bureaux and their exogenous environments (and in particular with their political sponsors), and, most (in)famously, (c) the bureaucrat's maximand. The model is constructed around a definition of bureaux as complex organisations in which:

⁵ Niskanen reproduced *Bureaucracy and Representative Government* in a popular edition, *Bureaucracy: Servant or Master?* (Niskanen, 1973). Other early contributors to the supply-side literature include Bartlett (1973), Breton (1974), and Mueller (1979). Mitchell (1983; cited in McCool, 1995) provides an extensive bibliography of the public choice literature on bureaucracy.

⁶ He was also the first academic economist to produce a systematic study of the behaviour of bureaux. *Bureaucracy and Representative Government* was published following a long period during which Niskanen was employed as a defence policy analyst, at the conclusion of which he took up a tenured academic position. Tullock had trained as a lawyer, and based his work around his experience in the United States Foreign Service, while Downs never held a tenured position (Niskanen, 1991, p. 14).

⁷ Goodin (1982, p. 23) reports that Margaret Thatcher (who Dowding (1993, p. 246) believes 'detest[ed] senior civil servants as a breed') made *Bureaucracy: Servant or Master?* required reading for civil servants. According to Self (2000, p. 109), *Bureaucracy and Representative Government* was mandatory reading for ministers.

- the owners and employees do not appropriate as personal income any part of the difference between revenues and costs; and
- some part of the revenue of the organisation derives from sources other than through the sale of output at a per unit price (Niskanen, 1994, p. 270).

Bureaucracies, then, are non-profit organisations funded by a regular appropriation of grant from a political sponsor (Blais and Dion, 1991b, p. 4). Within such agencies stand (or perhaps sit) '*good men [sic] who work very hard at their jobs, [but who] in certain institutional conditions, can and do make an awful botch of things*' (Niskanen, 1973, p. 4; original emphasis). In common with other public choice scholarship, Niskanen's economic model is firmly rooted in the assumption that officials, as do voters and politicians, act in a rational, self-interested fashion. The fundamental assumption is that utility-maximising bureaucrats are overwhelmingly motivated to maximise their agency's budget, subject to certain constraints imposed by the legislature and the political executive (regarding which more is said below).⁸ Indeed, the early Niskanen is unforgiving on the issue of the bureaucratic maximand: for him, all bureaucratic activity is directed towards the extraction of ever-larger departmental budgets from political sponsors.

Since its inception, Niskanen's account has gained considerable popularity amongst both lay observers, and political and bureaucratic élites. The chief attraction of the economic model seems to lie in:

... the apparent correspondence between [its] account of budget-maximising officials and 'common sense' experiences of how bureaucracies operate. The bureaucratic empire builder is not an off-beat theoretical construct, but seems to be an important and pervasive 'everyday' image of government officials (Dunleavy, 1985, p. 315).

For Niskanen, 'the beginning of wisdom is the recognition that bureaucrats are people who are at least not entirely motivated by the general welfare or the interests of the state' (1973, p. 20). Instead, he contends, public servants constantly strive to increase the size of their department's overall budget.⁹ This maximand derives from the relationship between a bureau's budget and the utilities secured by its officials, typically in the form of 'salary,

⁸ While he accepts that some bureaucrats seek to act in accordance with what they perceive to be the 'public interest', Niskanen argues that the impossibility that any single official might acquire knowledge of all individuals' preferences militates against success in this endeavour. Accordingly, bureaucrats take rational decisions to pursue lower level, more achievable goals.

⁹ Niskanen infers, in fact, that bureaucrats have little option other than to do so, and that those who 'do not maximise their budget will have an unusually short tenure' (1971, p. 41).

perquisites of the office, public reputation, power, patronage, output of the bureau, ease of making changes, and ease of managing the bureau' (Niskanen, 1971, p. 38). With the exception of the last two, these welfare gains are a 'positive monotonic function of the total *budget* of the bureau' (Niskanen, 1971, p. 38; original emphasis). Thus, while an official's personal utility need not depend upon the maximisation of each variable, it is in the overall interests of instrumental bureaucrats to vigorously pursue continuous budget increases. Dunleavy has paraphrased Niskanen's thinking on the bureaucrat's maximand thus:

[L]arger budgets help bureaucrats push up salaries and fringe benefits (such as pensions), since increased responsibilities merit higher remuneration. They improve officials' promotion prospects, since budget scale increases normally trigger ... increases in staffing. ... Bureaucrats in larger agencies have enhanced public reputations for influence, and higher status amongst their peer group [and] also control more patronage and have a greater capacity to influence events and overcome resistance (1991, p. 155).

What sets Niskanen's model apart from earlier supply-side accounts is its emphasis on the significance of systemic factors in influencing the budget and output behaviour of bureaucracies.¹⁰ Niskanen's concern is to move past explanations of bureaucratic conduct which focus exclusively on the attributes of individuals, and to establish a theory which incorporates the influence on output of a range of incentives and constraints which are specific to bureaucracies (Niskanen, 1994). Niskanen agrees with the earlier generation on one crucial point, however, which is that bureaucratic output is substantially a function of the maximising activities of individual officials: individuals' preferences, not institutional contexts, drive the budget game.

One of the critical insights of the economic model is that budget-maximisation occurs in an institutional environment which affords bureaucrats a series of strategic advantages relative to other stakeholders. In the first instance, the political sponsors of bureaux (principal amongst which, in parliamentary systems, are ministers and, to a lesser degree, legislative committees) have strong electoral incentives to ensure that policy delivery is successful. Those incentives derive from the need for elected representatives to boost and maintain public support, and tend to ensure that officials' bids for increased departmental budgets are looked upon favourably.

¹⁰ Downs (1967) and Tullock (1965) also refer to budget-maximisation. However, in both it is one of a number of motivational bases of officials' conduct, whereas Niskanen builds an entire model around this one proposition (Blais and Dion, 1991b).

On this point Niskanen shares common ground with demand-side theorists. He argues that vote-maximising politicians are inclined to fiscal profligacy, much of which is captured by public bureaux. In this project politicians are likely to receive support from rent-seeking sectoral groups who stand to gain from greater fiscal activism. Given the costs individuals incur when seeking to increase their knowledge of specific policy issues, and the relative inability of any single lay person to effect significant leverage over policy decisions, the actions of political sponsors will tend to be 'judged principally by a specialist audience, dominated by vested interests with a stake in expanding agency budgets' (Dunleavy, 1991, p. 156). However, the need to maximise voting support will encourage politicians to construct policy packages which, in addition to responding to the rent-seeking demands of specialist groups, incorporate a comprehensive range of economic benefits and concessions (Dunleavy and O'Leary, 1987, p. 109). This coupling of sector-specific policy initiatives with programmes which deliver rents to a wider section of the voting public inflates the overall cost of a budgetary package. In this way, political decisions to increase departments' operating budgets deliver dividends in the form of interest group co-operation and public support; reductions in operating budgets will tend to have the reverse effect.

The second strategic advantage traditionally enjoyed by bureaucrats derives from the 'wide disparity in the relative information available to the sponsor and to the bureau' (Niskanen, 1973, p. 16), and from the passivity of political sponsors in budget negotiations.¹¹ Information is a scarce resource in the public sector, possession of which bestows influence over decision-making. Niskanen's argument is that access to and control over information is a function of institutional design. Typically, bureaucrats are more knowledgeable about how an agency allocates resources, and what benefits and costs attach to its activities, than are external stakeholders. This information asymmetry also reflects the fact that whereas a 'market organisation offers *units* of output at a *price*', departments offer 'a *total* output in exchange for a *budget*' (Niskanen, 1973, p. 14; original emphasis). In the absence of a requirement to report against the costs of producing outputs, or to link legislative appropriations to demonstrable performance, the traditional model of funding bureaux on the basis of inputs obscures a sponsor's ability to assess with any precision the efficiency with which departments use public resources in the production of goods and services.

Information asymmetries function to the extent that 'the total activities and budgets of most bureaux are beyond comprehensive understanding' (other than, presumably, by officials themselves) (Niskanen, 1973, p. 25). That systemic feature of the machinery of government grants considerable discretion to senior bureaucrats to control the flow of

¹¹ That is, Niskanen assumes that the legislature, or that component thereof responsible for reviewing a bureau's budget proposals, will either approve or reject that proposal *in toto*, but will not typically engage in any process of bargaining with the agency.

information regarding the real costs and benefits of departmental delivery. As a consequence, officials are well placed to exaggerate the level of public demand for their services, and to understate the costs of producing the same (Hallett, 1993). The ability to manipulate and distort information also permits bureaucrats to 'substitute their own interest for their supposed function' with relative impunity (Self, 1993, p. 33). In that vein, Tullock has suggested that officials:

... play a significant role in political markets not just as implementers [of public policies] but also on the demand side of the market. As such, they make a significant contribution to rent-seeking and to the dissipation of wealth in society, taking full advantage of their status as small, privileged, homogenous special interest groups empowered by their ability to coerce members (1993a, p. 52).

Thirdly, in the Niskanen model bureaux benefit from the fact that the political executive tends not to have recourse to alternative sources of supply, either from other departments or from non-public providers. Truly competitive product markets provide a range of suppliers from which output can be sourced. Pragmatically, however, a minister's ability to exit the public sector marketplace and to seek out and purchase output from a non-departmental supplier is circumscribed (see Upton, 1999). And in the economic model, the fact that bureaucracies offer a quantum of output in return for an appropriation, rather than units of output on a price per unit basis, further constrains the room for manoeuvre on the part of political sponsors. The absence of contestability grants public agencies a privileged bilateral relationship with their political sponsors and, in public choice terms, typically results in bureaucratic 'over-supply' (Boyne, 1998). As monopoly providers of publicly funded goods and services, bureaucracies exercise considerable leverage in budget discussions, and politicians are unable 'easily [to] pick and choose within the package [offered by departments], or [to] consider competing bids from alternative providers' (Dunleavy, 1991, p. 157). Bureaucrats may not be unfailingly successful in their attempts to maximise their budgets, but the information asymmetries, lack of contestability, and weak incentives for sponsors to reign in bureaucratic over-production grant departments what is in effect an 'overwhelming dominant monopoly power' (Niskanen, 1971, p. 30), such that budget-maximising strategies are invariably successful (Blais and Dion, 1991b, p. 5). In the context of what is, in reality, a nominally bilateral relationship, it is far easier for officials to exploit their position as monopoly suppliers than it is for ministers to exploit theirs as monopoly purchasers (Blais and Dion, 1991b, p. 5).

For Niskanen, these features of bureaucracies, and of the political environments in which they function, are the over-riding determinants of the behaviour and output of bureaux

(Niskanen, 1994). On those bases, in 1971 he proposed two resolutions to the relationship between the budget allocated to a department and the output subsequently produced, which he termed the 'budget-constrained' and 'demand-constrained' regions. In the former, the budget appropriated to a bureau would be exactly equal to the minimum total cost of producing the quantum of output demanded by political sponsors. Under these circumstances bureaucratic production would tend to be efficient, and any waste which accrued would be a function of a sponsor body having consciously determined, or consented to, a larger than optimal level of production (Niskanen, 1994, p. 273).

However, for Niskanen the 'self interest of politicians, interest groups and bureaucrats, often acting in coalition and backed by the ignorance and short-sightedness of voters' (Self, 1993, p. 40) inevitably results in a bloated public service which inefficiently produces excessive output. In the demand-constrained zone, the various advantages enjoyed by senior bureaucrats grant them considerable success in extracting budget surpluses which fund output at levels at which the marginal costs incurred in the production of goods and services substantially outstrip the marginal value that accrues through each additional unit of production (Niskanen, 1973; Dunleavy, 1991). At successive points beyond which the equilibrium point is exceeded, welfare losses are incurred, and scarce public resources are wasted.¹²

Niskanen argued that demand-constrained production is both wasteful and inefficient. (On the other hand, Dunleavy (1991) suggests that waste should not be confused with inefficiency, inasmuch as a department may be highly efficient, or cost-effective, even if it over-produces output.) Bureaucracies which produce output beyond socially optimal levels are wasteful in the sense that in so doing they incur unnecessary costs and forego productive opportunities in other areas. However, this tendency for bureaucracies to over-supply output will be indulged by political sponsors so long as the aggregate impact of bureaucratic delivery does not result in a net reduction to society's welfare (Dunleavy and O'Leary, 1987). In other words, while the marginal costs of delivering one *specific* programme may exceed the benefits of that delivery, so long as politicians perceive that a department's *overall* performance represents at least a neutral impact in welfare terms, they will continue to fund the agency.

The logical end-point of Niskanen's assessment is the conclusion that '[a]ll bureaus are too large': indeed, he would have us believe that for 'given demand and cost conditions, both the budget and output of a monopoly bureau may be up to twice that of a competitive

¹² Some public choice accounts do not accept that bureaux are inherently wasteful, and argue that 'bureaucrats [simply] produce more, leaving fewer resources available for producing other goods, than would be the case under perfect competition' (McLean, 1987, p. 89).

industry facing the same conditions' (Niskanen, 1973, p. 33).¹³ There is a constraint, however, which limits the size of bureaux and their tendency to over-supply. Over time (and discounting rogue years in which departments might either under- or over-perform) a department must deliver the quantum of output agreed with a political sponsor on approval of its budget (Niskanen, 1971, p. 42). Failure to do so will at some point result in future demands by the agency being ignored by sponsors (Dowding, 1993). Moreover, in order to achieve expected levels of output, the budget provided 'must be equal to or greater than the minimum total expected costs of supplying this level of output' (Niskanen, 1971, p. 42). That precondition leaves open the possibility of constant departmental expansion. Clearly, political sponsors might consciously underfund a budget request; similarly, a department that fails to achieve the level of output it was funded to deliver risks reductions in future budgets. However, the reverse can also apply, and bureaucrats who consistently mount successful cases for the funding of greater levels of production, and who are able to deliver on those promises, can conceivably increase their budgets more or less continuously.

4.3.2 subsequent developments to the economic model

The elaboration of an economic model developed three decades ago, which created 'a minor stir, some misunderstanding, and some useful subsequent research' (Niskanen, 1975, p. 617), risks portraying the equivalent of a public choice strawman. The world is a different place to that in which Niskanen wrote his seminal work, and the political and historical variables which shaped his model of bureaucracy in some instances no longer apply. Moreover, to reduce Niskanen's *oeuvre* to *Bureaucracy and Representative Government* would be to misrepresent the breadth and depth of his work. Since that time, in fact, his core model has been revisited in at least three major contributions to the economic literature on bureaucracy (Niskanen, 1975; 1991; 1994).

Niskanen's most recent assessment of the strengths and shortcomings of his original framework is set out in *Bureaucracy and Public Economics* (Niskanen, 1994), which in turn builds upon a revised model first explicated in an earlier text (Niskanen, 1975). Importantly, while certain features of the orthodox model have been modified, Niskanen concludes that the basic structure of the theory outlined in 1971 'will continue to be the most useful approach to understanding the behaviour of bureau[x]' (Niskanen, 1994, p.

¹³ Even at the time Niskanen published his *magnum opus* not all public choice theorists concurred with his assessment of the extent to which departmental budgets are over-sized. Thompson (1973) and Breton and Wintrobe (1975) questioned the degree to which officials could mislead legislators, and on that basis contended that agency budgets could approximate optimal levels. McKenzie and Tullock (1978) also believed that on average budgets tended to be smaller than Niskanen allowed for, but conceded that they were still larger than those which would be required by a private sector firm operating under competitive market conditions (Mitchell, 1983; cited in McCool, 1995, p. 141).

281). Specifically, the following features of the original formulation remain centrepieces of the refurbished economic theory of bureaucracy:

- bureaucrats' behaviour is a function of incentives and constraints which are specific to bureaucracies;
- most bureaux have a monopoly purchaser of their output, who determines the quantum of output demanded from bureaux;
- most bureaux are monopoly suppliers;
- bureaux are funded on the basis of an agreed budget, rather than through the sale of output at a per unit price;
- there is no perfect output-budget equilibrium point, rather, the equation is resolved through a process of negotiation between a bureau and its sponsor;
- because the political sponsor does not directly benefit greatly from more efficient bureaucratic production, there are few incentives for sponsors to drive 'hard bargains' during budget negotiations, or to expend resources monitoring bureaucratic performance;
- neither politicians nor officials have a personal pecuniary share in surpluses generated by bureaux, for which reason surpluses are spent in ways which *indirectly* benefit either sponsors and/or officials (Niskanen, 1994, pp. 271-272).

However, Niskanen concedes that aspects of the initial framework were incomplete, pointing out, not unreasonably, that this much was to be expected of what was, after all, the 'first formal economic theory of the behaviour of bureau[x]' (Niskanen, 1994, p. 269). In particular, having reviewed the burgeoning empirical and theoretical work triggered by *Bureaucracy and Representative Government*, Niskanen has revisited his position on a number of the behavioural assumptions which comprise the core of the economic model. Two of these revisions are of limited relevance to this discussion: the third, however, is absolutely apposite.¹⁴ In this regard, Niskanen has resiled from his assumption that bureaucrats seek to maximise the *total* budget of their agencies. Having acknowledged that it is 'not the best assumption on which to build a theory of the behaviour of bureau[x]', he suggests that in certain circumstances 'any assumption about budget-maximising behaviour (along with its negative connotations) can be dropped entirely' (1994, pp. 274-275).

¹⁴ The two changes in question concern both the objectives and the behaviour of political sponsors, and address what Niskanen came to consider one of the key deficits in his 1971 model (which is largely silent on the contribution of sponsor bodies to budget processes). On the first issue, the contemporary Niskanen accepts that the political sponsors of bureaux are not the passive actors described in the original model (1994, pp. 275-278). Instead, politicians actively engage with bureaux during appropriations processes, which outcomes determine specific budget-output combinations, and the division of net budget surpluses amongst bureaux and sponsor bodies.

Niskanen's decision to discard an essential element of his classical conception of the bureaucratic maximand in part reflects empirical studies which have established only a weak correlation between increases in officials' salaries and the level and growth of departmental budgets (see Johnson and Libecap, 1989; Young, 1991). The evidence, in fact, seems to suggest that even when budget increments do accrue to agencies, they do not necessarily translate into direct pecuniary rewards to officials in the form of salary increases and better prospects for promotion. In addition, Niskanen was prompted by the work of Migué and Bélanger (1974) to articulate a new bureaucratic utility function. Shortly after the publication of *Bureaucracy and Representative Government*, Migué and Bélanger argued that bureaucrats act to maximise their bureau's *discretionary* budget (defined as the difference between the total budget and the minimum cost of producing the output expected by political sponsors), rather than its *overall* budget. Given that neither politicians nor public servants can claim a budget surplus as personal income, contests inevitably take place between sponsors and bureaucrats regarding the disposal of discretionary budgets. The portion of the net surplus which is, in due course, allocated to a bureaucracy will be spent on additional staff, capital or perquisites; that which accrues to political authorities may be distributed elsewhere, but always in ways which suit the purposes and interests of those authorities.

For both politicians and officials, however, the incentive to capture the benefits of net budget surpluses militates against efforts to reduce excessive spending, and encourages maximising behaviour in the discretionary budget range. Niskanen's modified economic model, therefore, proposes that on the whole bureaucrats seek to maximise the discretionary component of their bureau's budget. The former proposition that officials attempt to maximise an overall budget, Niskanen advises, 'should now be recognised as a special case' (1994, p. 275).¹⁵ This revised assumption generates three conclusions:

- that bureaux budgets are too large;
- that bureaucratic output tends to be too low; and
- the production of output is uniformly inefficient (which effectively does away with the original distinction between budget- and demand-constrained ranges).

The second and third of these differ from the conclusions reached in the initial model. Originally, Niskanen assumed that bureaucracies tended to over-supply output beyond an optimal point. In the more recent model, however, officials are presumed to wish to maximise their portion of the discretionary budget and, importantly, to spend that budget

¹⁵ That is, there are senior bureaucrats who are motivated to maximise their bureau's output, rather than its discretionary budget. Niskanen argues, however, that in the main the efforts of output-maximisers (or bureaucratic 'zealots') are likely to be frustrated by the conduct of other bureaucrats and political authorities whose preferences are to accrue surplus discretionary budgets (1991, p. 20). Hence, output-maximising bureaux have largely been superseded by surplus-maximising agencies.

in ways other than on the production of additional output. As a result, rather than investing in additional bureaucratic production, as was originally presumed, for any given overall budget bureaucrats will produce output at levels *beneath* those which would be achieved by efficient, output-maximising bureaucrats. (Niskanen also notes (1991, p. 23) that in output-maximising agencies the original proposition continues to apply.) In other words, the existence of a surplus budget indicates a shortfall in output relative to that expected by a sponsor. In the revised model bureaucratic over-supply is traded off for the maximisation of the surplus budget.

The earlier model also assumed that the production of output in bureaux was generally efficient, and only became inefficient at the point at which a department's budget exceeded the total minimum cost of producing an agreed-upon quantum of output (that is, in the demand-constrained zone). The distinctive conclusion of the refurbished framework, on the other hand, is that inefficiency in surplus-maximising organisations is the normal condition, given the absence of incentives for either political sponsors or bureaucrats to reduce excess spending, and the fact that departments will under-produce output for a given overall budget (Niskanen, 1994, p. 274).

4.3.2.1 the more things change

Niskanen has re-theorised his core assumption, but it is not clear how far this innovation shifts the revised economic model away from his original formulation. The language used to describe the systemic advantages enjoyed by bureaucracies relative to their political sponsors (and presumably the extent to which those advantages in actual fact apply) has been qualified somewhat. Thus, most departments (rather than all) enjoy monopoly supply status, and most bureaux confront a monopoly buyer (Niskanen, 1994, p. 272). Such qualifications, however, constitute an incremental rather than a comprehensive change to the model, the core of which remains substantially in place. Indeed, the caveats are broadly consistent with modifications to what Blais and Dion (1991b) refer to as the informal (as opposed to the formal) features of the theory, both of which co-exist in *Bureaucracy and Representative Government*. In its formal sense, the economic model contains strong and unequivocal assumptions from which clear propositions flow: bureaucrats' utility functions depend upon budgets, therefore budget-maximisation is the sole objective to which bureaucrats direct their energies (Blais and Dion, 1991b, p. 6). The informal model, on the other hand, accommodates more subtle assumptions which promote a range of behavioural strategies: thus, bureaucrats enjoy 'overwhelmingly dominant power ... [under] ... most conditions' but not all (Niskanen, 1971, p. 30), and some officials possess a 'relatively low pecuniary motivation and a relatively high motivation for making changes in the public interest' (Niskanen, 1971, p. 38). There is little in the revised model which appears to be significantly at variance with these informal aspects of the original framework.

Terminological nuances aside, the degree of continuity between the initial and the modified versions of the model is reinforced by the fact that the pivotal public choice behavioural postulate, which is that bureaucrats are rational utility-maximisers who pursue budget increments, remains untouched. Moreover, the presumption is still that bureaucrats will dispose of their share of surplus budgets in ways which maximise their personal (pecuniary and near-pecuniary) utility. What has altered is the conception of the type of budget (discretionary rather than total) which opportunistic officials are presumed to wish to maximise. Even with respect to this issue, however, the change in Niskanen's thinking is possibly more apparent than substantive. That possibility can be tested by examining the three strategies (or mix thereof) available to bureaucrats who wish to expand their department's discretionary budget.

First, an agency might endeavour to secure increments in its overall budget which exceed the marginal costs of producing the output it has committed to deliver. Secondly, it might vigorously pursue efficiency gains in its productive processes, such that even a static budget can deliver a larger discretionary budget. Finally, it might try to shrink production beneath the levels it agreed to upon receipt of an initial appropriation. In each instance, however, a department's strategic approach to maximising its discretionary budget will be shaped by the size of the *overall* budgetary envelope it receives, and its success in expanding the surplus budget will be constrained in the final instance by that total budget. In short, discretionary budgets remain significantly a function of total departmental budgets. In fact, Migué and Bélanger themselves have pointed out that discretionary resources depend on a large overall budget (1974; cited in Blais and Dion, 1991b, p. 6). In effect, then, the linking of increases in the former with growth in the latter leaves the original budget-maximising proposition largely intact.

Under the refurbished economic model there are two budget/output outcomes, the second of which is, in Niskanen's view at least, far more prevalent than the first: a bureau will either produce too much output efficiently, or it will produce too little and do so inefficiently. But while bureaucrats may be thought, these days, to wish to maximise surplus budgets rather than overall budgets, they remain budget-maximisers. The proposition first advanced by Niskanen thirty years ago, that officials are motivated to pursue larger budgets, remains the cornerstone of the economic model of bureaucracy.

There is one final set of ramifications which emerges from the distinction drawn between total and surplus budgets which needs noting. Rowley (1994), while approving Niskanen's incorporation of surplus-maximising bureaucrats, maintains that the archetypal (overall) budget-maximising official remains in existence. The utility of delineating between the two conceptions of bureaux budget, he suggests, is that it allows for a more subtle appreciation

of individual bureaucrats' motivations. On the one hand, there are officials who are motivated to pursue increased salaries, security of tenure and 'the easy life' (each of which are functions of overall budget size and rate of growth), and on the other there are those who are inclined towards power, patronage and perquisites of office (which are determined by the size of the surplus budget) (Rowley, 1994, p. viii). The strategies taken by particular bureaucrats will reflect not only their individual preferences, Rowley argues, but also the specific mix of incentives, opportunities and constraints which characterise the political circumstances in which they operate (which point is empirically tested in chapter 6).

4.4 Conclusion

The budget-maximising public servant at the centre of Niskanen's economic model has been arguably the most significant theoretical innovation in the study of bureaucracy since the writings of Max Weber (1930) and Woodrow Wilson (1887). The construct has also spawned within public choice theory a normative orientation which is deeply mistrustful of bureaucracy in particular, and of government in general. Mitchell's conclusion that 'the fact of bureaucracy cannot be denied, for it is felt in the impersonality of its treatment of citizens, the arbitrariness of its decisions, the boredom of its internal life, and the wastefulness of its allocations' (1983; cited in McCool, 1995, p. 142) is not atypical in this respect. It is not unreasonable for Lane to note that within public choice 'the lives of bureaux are sometimes [described] as despicable' (1993, p. 150), neither is it surprising that Dryzeck should conclude that most orthodox public choice is characterised by 'a general suspicion of anything and everything done by government' (1996, p. 96). The distinguishing feature of public choice is its conviction that interest groups, public servants and elected politicians have a mutual interest in increasing levels of public expenditure beyond what is efficient and fiscally responsible. Borins expresses the public choice critique of the results of such behaviour thus:

Combine [interest group] rent-seeking with bureaucratic budget-maximisation, and we have a situation where interest groups, bureaucrats, and politicians all collude to expand government activity, creating secure income for interest groups, large programs for the bureaucrats to run, and support for the politicians (1988, p. 15).

While its advocates accept that such self-interested activity is appropriate in, and indeed fundamental to the success of the private sector (assuming perfectly competitive markets and the absence of monopoly providers), public choice argues that in the public sector it produces results that are both inefficient and socially disadvantageous (Boston, Martin *et al.*, 1996). Self-interest is likely to lead to the making (and, even worse, the fulfilment) of

extravagant and expensive promises by politicians. It increases the scope for sector groups to indulge in self-serving behaviour. Institutional incentives which encourage utility-maximising behaviour by both politicians and bureaucrats result in the production of output at levels which exceed the socially optimal.

The aggregate consequences of such utility-maximisation are held to be unequivocally and universally negative. For the purposes of this thesis, which is concerned with the causes and structural outcomes of bureaucratic reform, the distinctive public choice conclusion is that the inherent proclivity of officials to pursue budget-maximising strategies contributes to a burgeoning state apparatus characterised by a variety of inefficiencies. The bureaucrat's maximand is assumed to result in bureaucratic landscapes inhabited by increasing numbers of departments, each consuming a growing proportion of total public expenditure, itself constituting a greater percentage of aggregate domestic economic activity (Boston, Martin *et al.*, 1996; Malte *et al.*, 1997). There is a clear sense within much of the standard public choice literature that this process of bureaucratic expansion, motivated by the desire of senior bureaucrats for larger budgets, is ineluctable. Whether that prognosis is sufficiently theoretically robust to account for the institutional consequences of the Employment Strategy is the subject of the following chapter.

Chapter 5 - Exploring the theoretical limits of public choice

5.1 Introduction

The previous chapter sketched the normative and prescriptive elements of an economic model of bureaucracy which, both domestically and internationally, has had a remarkable bearing on public sector reform. As a prelude to the empirical testing of the budget-maximising model against the events of the Employment Strategy, which is undertaken in the following chapter, the purpose of this discussion is to tease out the theoretical debates surrounding several of the most contentious characteristics of public choice.

The chapter commences with a broad critique of public choice, focusing on the contested nature of the self-interest maxim, and on the vacillations within the tradition over whether or not the determinants of rational behaviour are exogenously set. Thereafter, it is given over to a more detailed assessment of the methodological and normative shortcomings of the economic model itself. That discussion, too, begins by examining the debates which the notion of rational egoism have triggered, before elaborating on the difficulties inherent in asserting a universal and unvarying bureaucratic maximand.

5.2 The problem with public choice

The scope and cogency of the literature which contests the core postulates of public choice is such that it is tempting to consider the latter as an example of that sort of '[h]uman thought [which] evoke[s] fictions of the mind that far exceed those sets of assertions that withstand the tests of logical coherence, empirical warrantability, and public reproducibility' (Ostrom, 1993, p. 165). However, while this discussion is principally concerned with the blemishes within public choice, it would be churlish not to acknowledge the contribution it has made to both the study of politics and political institutions, and, in a normative sense, to the reform of institutions.

Predictably, the majority of positive reflections on that contribution emanate from within the tradition itself. For instance, Mueller lauds public choice as 'a sort of *Wunderkind* within the family of social sciences, often receiving both the praise and envy a *Wunderkind* inevitably receives' (1986, p. 3; original emphasis). Elsewhere, he concludes that the methodological strength of the scholarship which employs game theory and formal models of rational behaviour is that it 'allows us to make precise predictions about individual

behaviour on the basis of a few, fundamental postulates about individual motivation ... [and to achieve] ... powerful insights into human interactions' (1993, pp. 147-148). Niskanen (1993, p. 156) points out that public choice research on the importance of constitutional rules to policy decision-making, and the discovery that 'voters have very little incentive to invest in information about political choices', has added greatly to the stock of knowledge regarding political processes. And Moe (1984), commenting on the utility of the economic model, suggests that it offers valuable insights into the ways in which institutional arrangements can minimise the agency costs associated with the politics/administration dichotomy.

Qualified support has also issued from beyond the orthodox core of the tradition. Dunleavy (1991) has chided those who uncritically deride all public choice work, suggesting that by dismissing it out of hand such commentators do little to 'advance knowledge or debate' (Dunleavy, 1991, p. 258), and unhelpfully limit the range of intellectual tools which can be applied to the activities of political actors. Parsons believes that 'once extricated from its highly ideological context and purpose, [the budget-maximisation hypothesis] does offer some important insights and questions' (1995, p. 312) (although he does not elaborate on these). Dryzeck, too, acknowledges that a 'simple dismissal [of rational choice] is an inadequate response' (1996, p. 101), given that self-interest is so clearly a driver of human agency (albeit one amongst many).

Such endorsements aside, public choice has been the subject of a great deal of intellectual scrutiny. Much of that attention has taken issue with the tendency within public choice to assume that certain fundamental premises enjoy universal application (Dunleavy, 1991). In fact, its recourse to 'rather brutal ... basic assumptions' has prompted some to question the 'moral attractiveness' of public choice (Lane, 1993, p. 83). Intriguingly, these and other criticisms have not been confined to external observers. There is a substantial tradition of self-reflection within public choice itself, and the growing awareness of the limitations of the core behavioural assumptions upon which the tradition rests has encouraged at least one contributor (and a notable one at that) to express some uncertainty that 'we [public choice scholars] have much of interest to tell the world' (Niskanen, 1993, p. 151).

5.2.1 the self-interest maxim

The rational egoist postulate which constitutes the bedrock of public choice attracts the most (and the most vehement) criticism. Critics of *homo economicus* have long questioned the morality of assuming, and the methodological pitfalls associated with establishing that

the over-riding determinant of individuals' choices is the desire for short-term personal gratification. A. K. Sen captures the nub of these concerns, pointing out that it:

... is possible to define a person's interests in such a way that no matter what he [sic] does he can be seen to be furthering his interest in every isolated act of choice. ... [N]o matter whether you are a single-minded egoist or a raving altruist or a class conscious militant, you will appear to be maximising your own utility in the enchanted world of definitions (1977, pp. 322-323; cited in Marsh *et al.*, 2000, p. 481).

While few would utterly reject the proposition that, at least in some measure, 'instrumental rationality is present in human behaviour' (Laffin, 1997, p. 53), there is a vast literature which casts doubt upon the extent to which it is possible to either theorise or empirically explain the rich complexity of that conduct solely as a function of self-interest (see Blais and Dion, 1991a; Boston, Martin *et al.*, 1996; Gregory, 1999; Harsanyi, 1955; Hill, 1997; Lewin, 1991; Malte *et al.*, 1997; Parsons, 1995; Self, 1993; Sen, 1970, 1977; Simon, 1998; Wallis and Dollery, 1999). That literature extends back to the work of Adam Smith, who numbered grief, shame, vindictiveness, envy, anger and identification amongst the non-economic determinants of human conduct (Dryzeck, 1996, p. 95). More recently, Simon has elegantly expressed his opposition to the core rational choice tenet. For the doyen of public administration, 'the major motivational premise [of public choice] is simply false' (Simon, 1998, p. ii). Simon's own position on the issue of human agency is that '[h]uman beings make their decisions, not in terms of individual self-interest, but in terms of the perceived interests of the groups, families, organisations, ethnic groups, and national states with which they identify and to whom they are loyal' (1998, p. ii). For Sen, too, '[g]roups intermediate between oneself and all, such as class and community, provide the focus of many [individual] actions' (1977, p. 344).

Domestic authors have also sought to capture the complex bases of human agency. In a robust critique of the implausibility of the self-interest maxim, it has been argued that 'human beings are ... also political, cultural, and moral beings who inhabit an economic system that is profoundly influenced by ... the attitudes, habits, beliefs, aspirations, ideals and ethical standards of its members' (Boston, Martin *et al.*, 1996, p. 30). Those comments touch on a core issue with the rational egoist postulate, which is the assumption that people possess the capacity to deduce their self-interest from a process of rational consideration. Rational egoism embodies a sense of human nature which is 'a stylized one' (Sen, 1977, p.

321), but in anything other than highly abstract models it is not possible for individuals to reach perfectly rational decisions. A truly rational choice would be one in which an individual was capable of marshalling the myriad of data germane to the decision at hand, identifying all possible decision pathways, and evaluating the personal costs, benefits and consequences of each potential course of action. As Simon (1957) explained many years ago, in reality such a state of affairs is unattainable. Instead, knowledge tends to be bounded by both internal and external constraints which limit an individual's capacity for fully rational decision-making. In the process of making choices, therefore, actors adopt a satisficing approach, rather than a maximising one, underpinned by an orientation to problem solving which 'depends on the *interpretation* of a situation rather than on purely *instrumental* calculation' (Hall and Taylor, 1996, p. 939; emphasis added). In a similar vein, it seems highly unlikely that every choice made by an individual is a consequentialist one (that is, one predicated upon a rational consideration of the consequences of expressing one preference as opposed to another). It is much more likely, in fact, that a multiplicity of exogenous constraints (such as time, energy, and access to information and expertise) restrict people's abilities to work through the likely consequences (for themselves, let alone for others) of possible courses of action in a systematic and deliberative manner.

For Borins (1988), the problem with analyses based upon the presumption of self-interest is that they tend to be reductionist, and summarily disregard other determinants of political and bureaucratic activity, including institutional arrangements, a sense of altruism, or firmly held ideological convictions. Borins' concern, which is central to the research question this project addresses, is representative of the considerable scepticism which attaches to the insistence that individual actors possess a single, fixed set of preferences arrived at exogenously from particular institutional contexts. This characteristic of public choice (and of orthodox economics more generally) has been described as a reaction against the temptation to use '[u]nspecified changes in tastes over time and unspecified differences in tastes between people ... to account for just about any behaviour we might observe' (Blaug, 1980, p. 241; cited in Dunleavy, 1991, p. 252). However, public choice is guilty of having over-compensated for the risks allegedly associated with particularity and subjectivity, to the point that it now 'worr[ies] hardly at all about the sources of preferences and beliefs', preferring to emphasise instead 'how these data, however arrived at, get summed into social outcomes' (Shepsle, 1989, p. 134). What is more, an individual's preference ordering carries a heavy workload in public choice, where it is expected to 'reflect his [sic] interests, represent his welfare, summarize his idea of what should be done, and describe his actual choices and behaviour' (Sen, 1977, p. 335).

The essentialist insistence on fixed preferences is married to a belief that the only means of establishing someone's 'real preference is to examine his [sic] actual choices ... there is no choice-independent way of understanding someone's attitude towards alternatives' (Sen, 1977, p. 323). In other words, in establishing an individual's preference for one course of action *vis a vis* another, public choice will only accept evidence which is materially revealed through a decision (and will exclude all other affective and psychological variables, the processing of which necessarily precedes any given moment of choice). As a consequence, human conduct is 'explained in terms of preferences, which are in turn defined only by [observable] behaviour' (Sen, 1977, p. 325).

This arch-feature of public choice precludes the exercising of deliberative human agency. Rather than imputing authentic choice to biographical *homo economicus*, orthodox accounts tend to reduce individual social actors to 'disembodied bearers of preferences whose decision-making behaviour is strikingly homogenous once we can ascertain what their preferences are' (Dunleavy, 1991, p. 6). And once actors are conceived of as a unitary mass, there can only ever be one logical decision-pathway (or maximising course of action) for individuals, and therefore one predetermined outcome. There is little provision within orthodox economic models for individuals to embark upon reflexive decision-making processes, or for there to exist any disjuncture between observable behaviour and prior preferences. Little allowance is made for the possibility that actors might reach decisions which are either *irrational* (in the sense that they are non-maximising and based upon considerations other than personal gain), or which generate 'illfare' rather than welfare. Neither is the possibility entertained that someone may choose to act in ways which are at odds with their preferences (perhaps because they realise that in operationalising those preferences they might subject others to harm), or might opt to defer immediate welfare gains in anticipation of greater long-term benefit. Instead, there is only the unquestioned presumption that people possess a homogenous, unitary set of characteristics which is unresponsive to considerations of gender, ethnicity, age, experience, and so on. In public choice, social actors have become 'mindless automata who respond in a fully programmed fashion to external stimuli such as price and quantity signals' (Dunleavy, 1991, p. 6).

Because it does not explicitly address processes of preference formation, public choice does not accept that similarities and/or differences apply across individuals' utility functions; neither does it allow that individuals' beliefs and priorities alter over time and as a result of their experiences. The tradition simply assumes that political actors approach different institutional contexts with a pre-determined and consistent package of preferences. To use

Shepsle's allusion, in public choice *homo economicus* is 'an atom unconnected to the social structure in which he or she is embedded' (1989, p. 134). As a consequence, it simplifies the complex motives of political actors. For as Self points out, the 'neo-classical economic man [sic] of public choice is not 'natural man', but an ideal type actor within a historically specialised ... institutional framework' (1990, p. 19). In fact, 'consumers do not only want the cheapest possible market goods; they also want safe drugs, wholesome foods, clean air and water, quiet and safe streets, unpolluted beaches, and a beautiful countryside' (Self, 1990, p. 19). But as a temporally specific construct, the preferences and motives public choice attributes to *homo economicus* are highly particular, rather than generic across time and context.

Simon, Borins and Self demonstrate the flaws inherent in assuming that people's decisions are predicated on narrow considerations of self-interest, and are detached from their particular histories and circumstances. Those authors would likely sympathise with the complaint that much mainstream economic theory fails to distinguish between personal choice and personal welfare (Sen, 1977, p. 329). Sen's point is that, whether by design or default, the orthodox inference that these two are indivisibly linked does not admit of purposive behaviour which is *not* intended to generate personal gain. Equally, they might well endorse Ostrom's argument that 'a single, universal model of 'economic' reasoning applied to non-market decision-making ... is an empirical impossibility' (1993, p. 174). Indeed, human agency is frequently underscored by considerations which, in terms of the utility-maximisation thesis, are entirely counter-rational, but which are no less significant for that.

More telling, perhaps, than those which are generated externally are the criticisms of the self-interest maxim which emanate from within public choice. Mueller has remonstrated with his colleagues for constructing formal models upon a conception of a *homo economicus* which 'bears a close resemblance to Skinner's rat' (1986, p. 8). Mueller's case is that the rational egoist postulate is essentially a-historical and a-social: while it purports to predict future patterns of human conduct, it cannot account for the fact the individuals have 'not only a future, but a past' (Mueller, 1986, p. 19), experiences within which shape the manner in which particular exigencies are confronted and resolved. Buchanan has extended that analysis, acknowledging that 'orthodox public choice theorists have perhaps been overly defensive of the economic motivational bases for analysis' (1993, p. 73). He concedes that self-interest has squeezed out other behavioural drivers by suggesting that 'public choice, as a predictive-descriptive social science, is vulnerable to the charge that the

whole exercise is, at best, amoral, and, at worst, immoral. There is no space for genuinely public spirited behaviour in public choice, as an all-inclusive explanatory model of politics' (Buchanan, 1993, p. 73).

Other public choice theorists have echoed the concerns regarding the core public choice assumption. North has contextualised these intra-disciplinary debates by arguing that the 'central task for public choice over the next twenty-five years will be a critical exploration of the behavioural assumption it employs' (1993, p. 159). North's imprecation is not a new one, for the merits of the assumption in question have exercised the minds of a great many classical economists. Nearly a century ago, for instance, Sidgwick wondered why he 'should concern [him]self about [his] own future feelings any more than about the feelings of other persons?' (1907, p. 418; cited in Sen, 1977, p. 343). Sidgwick and North are separated by a hundred years of scholarship, but both take issue with the classical egoist premises that (a) individuals always elevate the prospect of personal gain above concerns for the welfare of others, and (b) that the reverse cannot apply.

Brennan and Hamlin (1997) offer the important observation that it is incorrect to equate rationality (as conceived within the economics literature) with the myopic pursuit of self-interest.¹ While they warn against replacing *homo economicus* with 'the *homo heroicus* assumption of universal public interest', Brennan and Hamlin concede that in addition to calculated self-interest, men and women are also on occasion motivated by 'a desire to act as morality requires' (1997, p. 3). That is, it may be rational for an individual to desire to act in accordance with (collectively established) notions of morality, but such conduct is not necessarily self-interested in the narrow, pecuniary sense of that term. To the extent that Brennan and Hamlin's reasoning countenances motives which are other-regarding, it approaches the point made by Hall and Taylor that 'an actor's behaviour may be influenced both by strategic calculation ... and by reference to a familiar set of moral or cognitive templates' (1996, p. 955).

Mueller has also questioned public choice assumptions regarding human agency. Reflecting on the methodological challenges facing the tradition, Mueller muses on what might explain why 'psychologists have invaded the leading economics journals and have presented experimental evidence that contradicts the most basic behavioural postulates that we

¹ In this regard, Sen usefully distinguishes 'sympathy' from 'commitment'. Behaviour prompted by the former is egoistic in the sense that 'one is oneself pleased at others' pleasure and pained at others' pain' (Sen, 1977, p. 326). Conduct motivated by commitment, on the other hand, is non-egoistic, insofar as it reflects a concern for others which does not directly affect one's own welfare.

employ ... [in the] ... most pristine versions of rational politics' (1993, p. 149). Having chastised those who rely solely upon game theory to account for human conduct, Mueller advocates the incorporation into public choice research of a range of behavioural postulates derived from other social sciences, in the interests of establishing a richer behavioural base and thereby increasing the predictive accuracy of formal models (Mueller, 1986, p. 5). He is joined by North (1993, p. 158), who believes that the incorporation of 'more 'realistic' assumptions ... derived from the diverse mental models that guide human decision-making' is the critical task confronting rational choice theorists in the future.

Increasingly, it would seem, mainstream public choice is tussling with the realisation that 'political participation may be driven by mixed motives' (Wallis and Dollery, 1999, p. 188). There is a growing awareness that what is missing from the framework are the sorts of insights which Mueller associates with psychology (how individuals form preferences, set goals, and subsequently go about attaining these) and sociology (the normative structures and other constraints within which individuals act purposively) (Mueller, 1993, pp. 148-149). Mueller's own view is that these absences can be attributed to a fear that adding 'alien hypotheses' to rational choice models 'would detract from their rigour, make them more difficult to analyze, [and] might even lead to that most brutal and humiliating of all criticisms, ... that our models are *ad hoc*' (1986, p. 6; original emphasis). Mueller's proposal that useful constructs from complementary social sciences be woven into rational choice research is echoed by Ostrom, who in a discussion on the prospects for greater 'commensurability' between economics and other socio-cultural sciences calls for a 'set of conceptual categories that provides a basis for translating conceptual elements that occur in all different language communities' (1993, p. 168).

Ostrom's prescription reflects his concern that much public choice scholarship is built upon 'extreme rationality assumptions' (1993, p. 163). Others have criticised the 'methodological arrogance' which leads some public choice scholars to 'take professional pride in the lack of realism inherent in the basic behavioural assumptions underlying their models ... [which is] coupled with an often cavalier willingness to accept a theory on the basis of rather slender empirical support' (Mueller, 1993, p. 148). The risk to this 'sect' of indulging in highly abstract formal models, Mueller adds, is the 'danger of ignoring reality, or of mistaking one's models for reality' (1993, p. 148). North, too, fears that a failure to progress past rigid notions of rational egoism will restrict the empirical application of public choice to circumstances characterised by anything other than '[s]imple problems, complete information, repetitive situations, and high motivation' (1993, p. 161).

5.2.2 accounting for the exogenous determinants of behaviour

Although early public choice scholarship tended largely to ignore them, institutions have increasingly featured in more recent studies. An acceptance that the 'political institutions of a society provide the framework within which the preferences and resource commitments of its citizens are transformed into collective actions that are expected to yield utility' (Mitchell, 1983; cited in McCool, 1995, p. 125) is standard fare in much public choice work these days.

However, a preparedness to entertain the existence of institutions is not in all instances translated into rigorous analyses of the interaction between institutional environments and individuals' choices. Most standard public choice accepts the premise that institutions are of interest only to the extent that they serve the maximising proclivities of opportunistic individuals (Dunleavy and O'Leary, 1987, pp. 112-113). Individual carts continue to be placed before institutional horses. North is worth quoting on this issue. In the leading journal *Public Choice*, he expressed the view that public choice has inherited from neo-classical economics:

... the assumption of a frictionless, a-institutional world and the assumption of expected utility theory, incorporated into the rationality postulate. Neither of these two latter assumptions is robust. While the past twenty-five years has witnessed the incorporation of institutions into public choice theory, the rationality assumption has *continued to be the mainstay of analysis*. What has not been appreciated by public choice theorists is that the two assumptions are inextricably linked together (North, 1993, p. 159; emphasis added).

For North, the slavish adherence to a de-contextualised rational egoism constrains the capacity of public choice to explain the complex interactions between individuals and the various social, economic and political institutions within which particular outcomes are determined. He bemoans the continued willingness to accept the impossibility that individuals possess the 'omniscience implied by the rationality postulate' (North, 1993, p. 159), and the unwillingness to provide robust accounts of the fashion in which institutions mediate, shape and transform human interactions. North observes that in its most pure form, the notion of rational instrumentality dismisses the importance, if not the very existence of institutions. In accounts in which 'individuals are prior to institutions'

(Lowndes, 1996, p. 194), the only constant and knowable determinant of human agency is self-interest, predicated upon preferences fixed independently of institutional context.

If that is so, consideration of the influence which institutional arrangements may have on individuals' preferred goals, and on the choice of maximising strategies through which ends are pursued, can only ever be of ancillary importance. If the choices people make are considered a function solely of calculated self-interest, specific institutional forms (such as legislative arrangements, governance structures, or management hierarchies) assume secondary significance as influences on decision-making processes. In this respect rational actor models promote a form of institutional reductionism in which institutions are treated as little more than instruments at the disposal of utility-maximising individuals, or as one of many arenas in which individuals endeavour to maximise self-interest. Institutional form, in other words, is secondary to the pursuit of self-interest.

But institutions manifestly do matter, especially as institutional rules delineate the sets of eligible agents, alternative strategies, and possible outcomes which apply in particular contexts (Shepsle, 1989). In this respect, institutions have a character which is independent of the motivations which attach to specific individuals. Indeed, the fact that they exist precisely for the purpose of 'reducing the ubiquitous uncertainty that arises from [human] interaction' (North, 1993, p. 159) is all the reason required to adequately account for the bearing which institutions have upon individuals' preference formation, choices and actions. Once other than self-regarding factors are countenanced as behavioural determinants, the external variables which comprise the context in which individuals' behaviour occurs can legitimately be treated as influences on that conduct. Legislative requirements, formal and informal relationships within organisations, and the ethics and norms internalised by individuals are central to the shaping of people's preferences and actions. It is in this context that Buchanan ventures the opinion that public choice must make the 'shift *from* the motivational postulates for the behaviour of political actors *to* the characteristics of structures within which the choices are made' if it is to respond positively to the criticisms which are made of its most cherished assumptions (1993, p. 73; original emphasis).

The preoccupation with self-interest also raises methodological questions about the capacity of public choice to explain the relationship between endogenous and exogenous determinants of individuals' actions. Perhaps the need for parsimony in analyses which rely upon deductive reasoning is such that it is inevitable that 'the rich texture and complexity of real-world situations [will be] excluded from any single analysis' (Sproule-Jones, 1988,

pp. 39-40). Nonetheless, a balance must be struck between the imperatives of parsimony and those of relevance and currency. It is one which continues to elude orthodox public choice, for while formal rational actor models offer important insights into human interactions, the crude nature of their premises generates predictions that are frequently less than accurate.

Public choice proponents themselves are increasingly alert to the risks associated with dismissing the wider institutional landscape as an influence in determining what motivates individuals. In this regard Mueller has complained that:

... [t]oo often economists and public choice scholars reject any attempt to broaden the behavioural or institutional premises of their models on the grounds that such broadening will make their theory *ad hoc*, and then [they] continue on to *accept* the theory despite a very weak correspondence between its predictions and what is observed (1993, p. 148; original emphasis).

But orthodox public choice scholars seem unable to resolve the issue of institutions. They concede that institutions can constrain individual agency, but they are loath to endogenise preference formation within institutional contexts. Tullock has discussed the importance of improving governance institutions and processes, and what he refers to as the 'theory of constitutions' (1998, p. 1041) has long been a feature of rational choice analyses. At the core of the Downsian model, for example, is the view that constitutional arrangements which vest sovereignty over the levers of macro-economic policy in the hands of elected representatives tempt politicians to manipulate those levers for short-term electoral purposes. Moreover, remedial prescriptions for the poor economic performance allegedly associated with such arrangements tend also to emphasise the importance of formal institutional design; independent central banks, balanced-budget requirements and constitutional spending-limitation proposals are promoted as means of 'protect[ing] our children from our own lack of fiscal discipline' (Niskanen, 1992, p. 20. See also Brennan and Buchanan, 1980; Buchanan, 1990; Martino, 1998; Niskanen, 1992; Schick, 1997b).²

² Niskanen's 1992 publication contains a case for and examples of such fiscal rules. Public choice also addresses the need for constitutional rules regarding the formulation and implementation of monetary policy. See Martino (1998) for a succinct treatment of the various rule régimes available in this respect, which include the use of the gold standard, the privatisation of money, and a monetary growth rule. See Dalziel (1993) for an account of the influence of public choice in the formulation of the statutory arrangements which govern the conduct of monetary policy in New Zealand.

Furthermore, public choice places considerable store by accounts which explain and anticipate the conduct of individuals by reference to incentive structures, themselves a function of institutional design. Orthodox analyses regard institutional design as a critical variable in constructing an environment of incentives, typically for the purposes of regulating self-interested behaviour and directing it towards some socially desirable outcome or other (Brennan and Hamlin, 1997). For example, a standard public choice argument (empirically tested in the chapter which follows) is that the traditional bureaucracy provides clear incentives for officials to maximise departmental budgets and to over-supply goods and services. Working from the assumption that institutional reform alters incentive structures, and thereby behaviour, the rational choice prophylactic for bureaucratic capture includes the institutional separation of policy from implementation.

In public choice, the incentive structures attendant upon the design of institutions have a bearing on the ability of *homo economicus* to maximise utility. However, in much of the traditional scholarship institutional considerations are shunted aside when explaining the genesis of the behavioural postulates which drive maximising conduct.³ The organic link between institutional design and individual conduct (that is, the propensity for individuals to shape institutions and for institutions to mould preferences) is broken in public choice. Therefore, while it has something to say regarding optimal institutional form, within rational choice lies a conundrum. Institutional change is frequently advocated as a remedy for (or, less generously, is applied as a sanction against) the welfare losses associated with rational egoism. For the cure to be effective it must exist beyond the reach of those to whom it is administered. In this respect, rational choice continues to exogenise rather than endogenise institutions, and to decouple human agency from the environments in which it takes place.

5.3 Problems with the economic model

The preceding discussion has concentrated on a series of over-arching shortcomings which are generic to most public choice accounts. However, attached to the economic model of bureaucracy is an additional, and much more focused set of flaws. A number of these are specific to Niskanen's framework, while others are particular manifestations of the generic issues raised above.

³ That tendency is less obvious in the new institutionalist approach which has sprung up within rational choice, and which is the subject of chapters 7, 8 and 10.

5.3.1 the self-interest maxim

The presumption of self-interest is a case in point of the latter. There are two aspects to this issue when applied to matters bureaucratic: one is a question of normative orientation, and the other concerns the rigour with which the economic model employs rational egoism as the basis of its analysis of bureaucratic activity. Regarding the first, the question is whether it is reasonable to suggest that 'all politicians, [bureaucrats] and voters always look only to their cheque books' (Brennan and Hamlin, 1997, p. 6).

Public choice has roundly criticised the environmental determinism characteristic of the 'sociological man which populated the world of the behaviourist' (Shepsle, 1989, p. 133), but is itself similarly beholden, albeit to the imperatives of maximisation. Criticism has long been levelled at the insistence that public servants are overwhelmingly concerned with satisfying their private pecuniary interests, and the associated refusal to countenance the incidence of non-maximising bureaucratic behaviour. The matter arises because at the heart of the economic model is the assumption that, much as private sector executives seek to maximise the profits of their firms, senior officials are similarly motivated to maximise the departmental budget (or at least its discretionary component). In effect, the budget serves as a proxy for private sector profit, on the basis of which is posited a positive relationship between budget increases and individual bureaucrats' utilities.

Niskanen's original position on the issue is an interesting one. In *Bureaucracy and Representative Government* he is at pains to distance the budget-maximising assumption from a 'cynical interpretation of the personal motivations of bureaucrats', and accepts that some bureaucrats 'undoubtedly try to serve (their perception of) the public interest' (Niskanen, 1971, p. 39). However, he goes on to argue that as no individual can possibly possess, much less process, the vast quantities of information required to discern that public interest, it is logically impossible for any single public servant to serve it. Instead, bureaucrats focus their energies on more feasible goals which they continue to identify with the public interest, and the realisation of which is a function of their agency's budget. In the final instance, then, conditions both within and external to bureaucracies will force even those officials who may not be personally motivated to maximise their department's budget to eventually do just that.

This preference for distinguishing between self-interest and selfishness (but to do so without resiling from the self-interest maxim) is also a feature of Niskanen's recent publications. In *Bureaucracy and Public Economics* he concedes that officials can be 'intelligent,

industrious, and committed to their organisations' (1994, p. 270). Even in the revised model, however, self-interest remains the driver of bureaucrats' actions. Furthermore, self-interest continues to be operationalised as the maximisation of pecuniary or near-pecuniary rewards. The rational choice assumption that internalised determinants of behaviour are inextricably rooted in the pursuit of self-interest has a series of important ramifications. It risks a distrust of public servants, it precludes a commitment to a wider public good, and it demands the erection of external constraints which limit opportunism by establishing performance and accountability benchmarks against which officials' behaviour is assessed.

The design of institutional remedies on the basis of an *ex ante* diagnosis which selectively excludes non-maximising imperatives is, however, a project which is incompatible with the empirical record. Studies undertaken in a number of Western European and American contexts have established that bureaucrats are motivated to secure goals as diverse as involving citizens in policy-making, safeguarding the rights of individuals, and enhancing communication between government agencies and community organisations (Lynn, 1991, p. 66). In Lynn's view, none of these motives has much to do with budget-maximisation, and neither are any of them commensurate with self-interest (other than in Sen's sense (see footnote 1 above) that bureaucrats derive satisfaction and pleasure from serving others).

The budget-maximising thesis also fails to explain the findings of Campbell and Naulls. Having interviewed a number of (both elected and appointed) American officials regarding those bureaucrats' perceptions of their roles and career motivations, the authors conclude that individuals possess complicated motives for seeking public service employment. A number of those interviewed simply wished to 'serve the public as best they [could]'; some hoped to become more closely involved in policy formulation and implementation; others sought work which called upon their academic training and expertise (Campbell and Naulls, 1991, pp. 85-87).

Similar findings are reported from the United Kingdom, where Marsh *et al.* (2000) have explored the ramifications of the failure of public choice to account for the manner in which institutional culture shapes bureaucrats' preferences. On the basis of interviews with both serving and retired senior civil servants, the authors conclude that 'despite all the cultural and structural changes which Whitehall has undergone in the 1980s and 1990s, senior officials still share ... a public service ethos' (Marsh *et al.*, 2000, p. 14). That ethos, they explain, is fostered by a bureaucracy which is overwhelmingly driven by 'an explicit

sense of duty to the general public, rather than purely being motivated by self-interest' (Marsh *et al.*, 2000, p. 14).

In New Zealand, too, there is evidence that the preference structures and motives of bureaucrats are more complex than public choice allows for, and that a range of factors attracts people to work in the public service. The State Services Commission has found that 'remuneration is only one of the career motivations of public servants' (State Services Commission, 1998a, p. 16), while Martin (1991) points out that many officials derive satisfaction from a sense of service to the wider community, and are motivated by their capacity to contribute to societal purposes. Those imperatives are, in fact, included in the Title to the *State Sector Act* 1988, which is designed 'to ensure that employees in the State services are imbued with the spirit of service to the community'.

Norman and McMillan report that '[v]ariety and challenge are more significant motivators for top public servants than material rewards and status' (1997, p. 3). Their research also established that 'a lack of trust in one's integrity', and the involvement in organisational change of 'consultants whose perception is that everybody is motivated by money' (1997, p. 3) were considered significant barriers to motivation by senior New Zealand officials. Norman and McMillan also found that material rewards ranked beneath variety and challenge, leadership opportunities, and job interest as a motivating force for bureaucrats, and that this structure of utilities applied uniformly regardless of the gender, ethnicity, age, or years of private sector experience of their respondents (1997, pp. 4-5).

Those findings are echoed by Goodman (1999) who, having surveyed all (then) current public service chief executives, found that pecuniary gain did not feature at all in the motivating forces cited most frequently by respondents. Instead, Goodman uncovered that the most senior bureaucratic cadre is overwhelmingly motivated by the 'satisfaction [they take] from the opportunities they have to lead, exercise autonomy, influence decisions and policy formulation, and the feeling that they are contributing through [their] work to the betterment of the country and its people' (1999, pp. 18-19). Goodman also found that 'the intangible but still evidently influential sense of public service as a valuable and proper end in itself' remains a significant source of motivation for most senior bureaucrats (1999, p. 20). This sense of obligation to a collective interest has also been discussed by Gregory (1995, p. 187), who notes that officials' commitment to the constitutional convention that public servants owe a primary duty of loyalty to their minister has, if anything, grown since the instigation of the reforms of the core state sector.

5.3.2 operationalising self-interest

To paraphrase one commentator, perhaps the best that can be said is that ‘every bureaucrat cares about some mix of private desires, social goals, and public policies, and has divided loyalties’ (Dunsire, 1991, p. 179). Yet in the economic model, the attention paid to the first of these features precludes consideration of the others. Quite apart from the utility of the self-interest construct as a means of making sense of what bureaucrats do, the rigour with which the maxim is operationalised is a matter of debate. Orthodox supply-side theorists employ the maxim in a partial, almost expedient fashion. Niskanen’s own case for rational instrumentality is less than convincing. It rests on the rather blasé conclusion that rational behaviour (considered coterminous with utility-maximisation) ‘is determined culturally ... [but] ... *appears to be a more or less accurate* representation of real life’ (1973, p. 21; emphasis added). Niskanen marshals little robust evidence to substantiate this observation, but proceeds nonetheless to construct a sophisticated (and highly influential) account of bureaucratic conduct around a behavioural postulate which he accepts may or may not approximate reality.

Moreover, the conflation of rationality, instrumentality and self-interest in the seminal accounts suggests a degree of heuristic expediency. The efficacy of the self-interest maxim logically rests on the extent to which an official’s observable actions reveal an absence of other-regarding motivations (Dunleavy, 1991). After all, if rationality and self-interest are synonymous, one would not expect bureaucrats to pursue utility-maximising strategies which benefit others. By and large, Niskanen’s menu of the utilities ostensibly preferred by public servants (salary, perquisites, power, prestige, and so on) can be considered consistent with individual self-interest. However, Niskanen also indicates that bureaucratic output is a utility function, which suggests that what is being valued is the utility of a department’s delivery activities. Unless a clearly definable proportion of that output is directly consumed by a senior official, however, it is difficult to reconcile bureaucratic output with the imperatives of self-interest (Dunleavy, 1991, p. 166). Typically, instead, a department’s production generates utilities for the citizens who use or consume that output. That it is mentioned as a utility function at all brings Niskanen perilously close to inferring that the officials who produce those outputs are motivated by altruistic tendencies, which would clearly be at odds with the core public choice assumption.

5.3.3 prioritising budget-maximisation

The strong public choice attachment to the self-interest maxim generates an inference that a single maximising course of action, rather than a range of possible pathways, is available

to instrumental individuals (Dunleavy, 1991). The signal feature of the economic model is its preoccupation with the *budget*-maximising tendencies of officials. That public servants may wish to maximise some other utility (or, indeed, that they may not wish to maximise anything at all) is not entertained. For Niskanen, budget-maximisation is an open-ended process, constrained only by the exogenous limits which political sponsors impose on agencies' abilities to drive up budgets. This exclusive concern with budget-maximisation, however, glosses over the complexities of bureaucratic environments. In particular, it ignores possible differences in motivations between individual officials, both within agencies and across the span of public organisations.

5.3.3.1 collective action issues

The budget-maximising hypothesis assumes that all departments are internally structured as hierarchic planning and control organisations, but in so doing it markedly underestimates the collective action problems faced by instrumental bureaucrats.⁴ Thus, Niskanen conceives departments to be dominated by a single, top-ranking official who exercises sovereign control over intra-organisational decision-making and policy determination.⁵ Indeed, he explicitly employs the term 'bureaucrat' to 'define the senior official of a bureau with a separate identifiable budget' (Niskanen, 1973, p. 11). The omnipotent bureaucrat is a recurring theme throughout Niskanen's work. For instance, he observes that a 'bureaucrat's life is not a happy one ... unless he [sic] can provide increasing budgets for his subordinate bureaucrats, in turn, to disburse in salaries and contracts' (Niskanen, 1971, p. 40). Moreover, in the economic model all other officials are treated as employees of the top official, and their influence on policy-making is presumed to be correspondingly negligible (Dunleavy, 1985).⁶ In this context, budget-maximisation produces benefits which are essentially 'private goods for the hegemonic top official' (Dunleavy, 1985, p. 301), and as

⁴ Dunleavy (1991) makes the point that this presumption may reflect the context in which Niskanen wrote his seminal account. Niskanen appears to agree, having accepted that his 'perspective was probably also biased by my long experience as a defence analyst' (1994, p. 274). Prior to the publication of his 1971 text, Niskanen had worked as a defence analyst in the office of the Secretary of Defence, and for two defence research organisations, for twelve years (Niskanen, 1991).

⁵ For instance, his discussion of bureaucratic rationality hinges on the premise (expressed in the singular) that bureaucrats will 'strive for increased budgets until they can turn over the management burden of a stable higher budget to a new bureaucrat' (Niskanen, 1973, p. 22).

⁶ The devolution in 1988 of the employer function to chief executives in the New Zealand public service means that Niskanen's assumption is technically correct. However, it does not describe the centralised system of employment which existed at the time his account was written; neither does it permit any effective delegation of decision-making responsibility beneath the most senior official.

a consequence the utility of the senior bureaucrat is conflated with that of the department (Dowding, 1993).

The assumption that government departments represent line hierarchies ‘dominated by one individual or even a small leadership group with cohesive interests’ (Dunleavy, 1991, p. 174) is open to contest. To be fair, Downs acknowledged that the ‘concept of bureau[x] as monolithic structures is largely a myth’, and accepted that ‘topmost officials ... must always delegate some of their power to their subordinates’ (1967, p. 133).⁷ Niskanen, on the other hand, insists on the omnipotency of the lead bureaucrat, and reduces what occurs in collective bodies (bureaucracies) to the actions of single actors (individual bureaucrats). Not only does that ignore that individuals within a bureaucracy will make different choices about subscribing to individual or collective welfare-maximising strategies (Dunleavy, 1991, p. 254), it also glosses over the specific internal features of bureaux and masks the degree to which policy leverage is dispersed amongst an organisation’s employees (Dunleavy, 1991, p. 165). As a consequence, the economic model downplays the importance of the informal dynamics which are a feature of all complex organisations, the playing out and management of which are significant factors in determining the outcomes of decision-making processes. In departments there is invariably a range of senior officials who exercise an influence, at the very least in an incremental sense, over the decisions taken with the agency. Numbers of bureaucrats making decisions based on instrumental considerations would be faced with a hugely complex menu of options from which to make those choices, the sum of which would be the total number of officials multiplied by the personal preferences of each. In such a context, a collective strategy (to which all officials dedicate their instrumental endeavours) geared towards the maximisation of the bureau’s budget might feature amongst some, or indeed all, of those officials’ sets of preferences. It is highly unlikely, however, that such a goal would constitute *the* most important priority for each and every official. In particular, public servants at the lower reaches of the formal hierarchy are likely to rank-order their preferences differently to their senior colleagues (for reasons explored in detail below).

Indeed, Dunleavy argues that in complex organisations in which the construction and administration of budgets is a function of decisions taken in diffuse and diverse places,

⁷ Having noted that, Downs conflated the formal goals of a bureau with the ‘personal goals’ of its top official, such that ‘controlling the bureau means getting its members to achieve his [sic] own goals’ (Downs, 1967, p. 133). Delegation for Downs appears to have been little more than a means of attaining the outcomes sought by the lead official.

budget-maximisation is more sensibly described as ‘a public, rather than an individual good’ (Dunleavy, 1985, p. 301). That is, a coherent maximisation strategy would require the co-ordinated input of a large number of people in addition to the lead bureaucrat, and as such budget-maximisation (if it occurs) is arguably an inherently collective phenomenon, rather than one conforming to the strictures of methodological individualism. In effect, it can only arise from the aggregation of a multiplicity of decisions taken at each critical decision-moment by departmental officials, every one of which is explicitly intended to contribute to an agency case for budget-maximisation. Yet the presumption that individual officials predicate every decision they take on a calculus designed to maximise their bureau’s budget imputes an extraordinary degree of rationality to the social and cognitive processes out of which decisions emerge. It is doubtful that the presumption accurately represents decision-making within complex public organisations, and there is little empirical evidence to suggest that instrumental conduct of that concerted and co-ordinated nature is a common denominator across bureaux. Instead, it is probable that the conclusion that ‘people don’t stop at every choice they make in their lives and think to themselves, ‘Now, what will maximise my self-interest?’ ’ (Steinmo, Thelen and Longstreth, 1992, p. 8) applies as much to public servants as it does to people in other occupations.

5.3.3.2 variations in maximising activity within departments

Because public choice misrepresents the vagaries of departmental decision-making, it also understates the diversity of formal and informal relationships within bureaucracies. Complex organisations are treated as relatively homogenous, or unitary, for analytical purposes. That creates problems in accounting for variations in bureaucratic activity, both amongst individual public servants and between different agencies.⁸ Even the revised Niskanen has virtually nothing to say on the manner in which officials in separate units of a single agency, and/or at different points on a department’s hierarchy, face varying institutional constraints, and are therefore confronted with a range of possible courses of maximising behaviour (Lowndes, 1996, p. 188). He is silent, too, on the extent to which public servants’ motives may evolve as they achieve promotions within a department, and does not allow that the utilities sought by individuals in one department may differ to those pursued by officials employed in another. For Niskanen, budget-maximisation is simply axiomatic and invariable across the bureaucracy.

⁸ The fact that departments execute various functions, and therefore administer different sized and differently configured budgets, suggests the existence of a heterogenous profile of maximising incentives. That issue is explored in chapter 7 in the context of Dunleavy’s budget typology.

Yet the 'fuzzy' link between the success (or failure) of collective action and the benefits that subsequently accrue to individuals suggests that rational officials stand to gain relatively little from devoting their personal resources exclusively to budget-maximising strategies. Dunleavy points out that 'the hallmark of collective strategies is that the connection between the achievement of a given public-goods outcome and the individual bureaucrat's welfare [is] remote' (1985, p. 302). Assuming a successful outcome, it is highly improbable that the distribution of a quantum of public resource across the various budget centres within a department will occur in direct proportion to the investment made to a collective-action strategy by particular individuals in those discrete locations. Instead, it is likely either to reduce the net gain for any one individual (in instances in which the costs incurred in subscribing to the strategy are greater than the benefits which eventually accrue), or to encourage the incidence of free-riding on the part of officials who choose not to invest in the initiative in the knowledge that any eventual benefits will flow through to them in any event (see Young, 1991). Thus, given that an 'indirect and complex link between a successful outcome and a welfare boost for the individual' is a feature of collective strategies, a rational official should be more highly motivated to pursue individual maximising strategies likely to deliver utilities which do not have to be shared with others (Dunleavy, 1991, p. 175).

In particular, senior public servants are more likely to pursue individual welfare-maximising strategies than are junior officials, because they enjoy a reasonable degree of leverage over the outcomes of such strategies. Moreover, rather than remaining concentrated within the higher echelons where they are enjoyed by senior staff, the benefits of a net public-good gain will percolate throughout an organisation. The costs of pursuing a budget-maximising strategy, however, will tend to be disproportionately borne by senior bureaucrats. As such, there are fewer incentives for them to resort to a collective-action strategy designed to maximise the department's aggregate budget than there might be to pursue more narrowly focused instrumental endeavours (such as seeking personal promotions or more favourable remuneration packages).

On the other hand, one might expect there to exist strong incentives for junior officials to commit to a collective-action strategy, particularly as the relative lack of executive leverage they exert is such that they possess limited opportunities for successfully pursuing individual utility-maximising strategies. And, in fact, the 'utility pay-offs from generalised budgetary increments are likely to vary, roughly inversely with rank' (Dunleavy, 1991, p. 178). Junior bureaucrats tend to incur fewer advocacy costs than do their senior colleagues,

and to gain more from aggregate budget increases which, in due course, manifest themselves in improved general working conditions, across-the-board incremental salary increases, and so on.

All other things being equal, however, the impact which junior staff have upon the outcome of a collective strategy will be somewhat diluted. On the whole, they will enjoy limited access to the requisite information, and their fluency with the policy case required to secure a budget increase will be less robust than that possessed by more senior colleagues. The capacity of lower-ranked officials to exert a pivotal influence on decision-taking will, in most instances, be less than that of others further up the hierarchical ladder, and they will typically enjoy reduced access to the most senior decision-makers, particularly if they are located in isolated branch or regional offices. The workloads of junior staff are more likely to entail operational rather than policy responsibilities, and are therefore likely to detract from the time, energy and policy expertise they can contribute to a collective action. Paradoxically, therefore, while they might stand to benefit most from a budget increase, the decrease with rank in '[t]he probability that an individual's advocacy of a budget increment is decisive' (Dunleavy, 1991, p. 179) acts as a disincentive for junior officials to commit to collective budget-maximising strategies.

Furthermore, it cannot be assumed that all departmental officials will necessarily endorse the distribution of the 'abstract marginal increment to [a] bureau's global budget discussed by public choice' (Dunleavy, 1985, p. 302). Niskanen infers that increases in an overall budget are in the interests of *all* bureaucrats. Dunleavy, however, suggests that officials are unlikely to consider that their personal interests are best served by budget increases which accrue to ring-fenced departmental initiatives over which they exercise little or no control. Instead, they will tend to 'favour [increases] which positively affect their own position ... [and] are quite likely to be indifferent towards, or to oppose, budget increments going to other sections of their own organisation' (Dunleavy, 1985, p. 302). The latter is especially likely should officials consider that growth in the funding of other areas of their department's operations will result in 'relative deprivation' for their own domains of operational responsibility, or if such funding generates a realignment in intra-departmental hierarchies of status and prestige at their own personal expense, or that of their unit.

The generic point that individuals within a single department face different (rather than uniform) maximising incentives can be crystallised by adapting the seminal Downsian account of voting behaviour to a bureaucratic context. In an organisation in which the

concerted actions of a significant number of individual actors is a prerequisite to a global budget increase, the equation which each individual official must resolve before committing to that project is:

1. the net utility gained from a marginal departmental budget increase;
2. discounted by the probability that the increment will depend upon his or her individual advocacy;⁹
3. minus the costs incurred in advocating the increase;
4. must be greater than the gains which could be secured through either an individual maximising strategy, or an alternative collective strategy (Dunleavy, 1991, p. 177).¹⁰

Crucially, while the equation is the same for each bureaucrat, the outcome of the calculus will vary from individual to individual, depending on an official's location within an agency hierarchy. Dunleavy suggests that the utility dividends from overall budget increases are 'distributed more or less inversely to rank position ... [with] those at the bottom gain[ing] most, while those at the top gain least' (1985, p. 303). Junior officials are likely to incur the lowest advocacy costs: their contributions to the construction of a case for a budget increase will probably be nominal, and are therefore unlikely to attract hostility from others, detract from the performance of existing workloads, or result in a significant reconfiguration of those workloads (to accommodate, for example, out-of-work planning meetings). Moreover, given that leverage over decisions is typically inversely related to rank, the probability that theirs will be the pivotal voices upon which an increase hinges is remote. The result of the equation in the event of any eventual budget increase is therefore likely to be favourable, and as such one might expect a greater willingness amongst lower ranking officials to advocate budget-maximising strategies.

The reverse logic applies further up the hierarchy. The probability that any one individual's advocacy of a budget increase will be decisive increases with rank (although the extent of that influence will be mitigated by exogenous variables, including fiscal envelopes imposed by political sponsors). But equally, the personal costs generated by 'preparing special papers, attending difficult meetings, cultivating external allies and contacts, responding to

⁹ See Dunleavy (1997) for a critique of pivotal choice theory, in which he contests the rational choice notion that individuals 'always discount the net benefits of participation in collective actions by the likelihood that their individual involvement will be pivotal in bringing about the desired result' (Dunleavy, 1997, p. 55).

¹⁰ One such alternative strategy is a bureau-shaping strategy, discussed in chapters 7 and 8.

sponsor criticisms or investigations, and justifying the bureau's case in public' (Dunleavy, 1985, p. 305) will also increase with rank.

The net result is a paradox regarding which standard economic models of bureaucracy are silent. For while the lowest ranking officials stand to gain most from incremental increases to a department's base budget, and face the lowest personal costs in advocating such an increase, the probability that as individuals they will exercise any leverage over a decision to grant an increase is negligible. As such, they are the least likely to feel it is worth their while agitating for budget increases, and the most likely to free-ride on the outcome of the appropriations process. At the other end of the organisational scale, while their advocacy tends to be critical to a successful outcome, the most senior officials stand to incur high advocacy costs and relatively low utility yields from a budgetary increase. Neither group, it would appear, is as likely to invest energy in a collective budget-maximising strategy as Niskanen argues.

5.4 Conclusion

Chapter 4 marked out the boundaries of the wider public choice tradition and the economic model of bureaucracy. It ended by raising a question mark over the theoretical cogency of both. The purpose of this chapter has been to highlight some of the theoretical contests which take place over the adequacy of the constructs upon which public choice, and its bureaucratic derivative, are based. The focus of public choice on the intentionality of human agency enjoys considerable merit, as it allows for purposive action and rescues individuals from the determining influence of impersonal institutions. However, at the points at which individuals' conduct is couched solely in terms of self-interest, and the motives of officials are explained without recourse to institutional and historical contexts, public choice cedes much of what it has to offer.

The substantial reliance upon the rational egoist postulate poses particular problems for public choice, and, indeed, for the wider economics discipline. Sen (1977) has questioned the wisdom of constructing elaborate theoretical edifices upon a core assumption which, even within quarters of the economics community, is believed to be either false or, at best, of limited value.¹¹ Similarly, Pyne might well have had public choice in mind when he

¹¹ Sen suspects that 'if you were to poll economists of different schools, you would almost certainly find the coexistence of beliefs (i) that the rational behaviour theory is unfalsifiable, (ii) that it is falsifiable and so far unfalsified, and (iii) that it is falsifiable and indeed patently false' (1977, p. 325).

concluded that ‘explanations that can only explain observations by implausible assumptions are not really explanations’ at all (2000, p. 3). In short, in its enthusiastic embrace of normative design public choice has severely circumscribed its capacity to account for behavioural and institutional variance, complexity and diversity.

The theoretical density which public choice has traded off in the quest for parsimony has important ramifications for the orthodox economic account of bureaucracy. Niskanen’s model presumes ‘an open ended budget-maximiser constrained only by sponsor funding restrictions’ (Dunleavy, 1985, p. 315), and that all officials are equally motivated, irrespective of seniority or institutional location, to pursue increases in their agency’s budget. The shortcomings in this overly simplistic conception of bureaucratic reality can be summarised as follows:

1. the self-interest maxim is an incomplete basis on which to comprehensively explain human agency;
2. collective action constraints suggest that incentives to maximise utilities are spread unevenly within, and across, public departments;
3. individual departments perform different functions, and within each there exists a raft of differing roles, such that a single, uniform, public service-wide maximand cannot reasonably be presumed.

In the context of this research, the chief relevance of these intrinsic weaknesses lies in the limitations they impose on the capacity of the economic model to explain the institutional trajectory of the Employment Strategy. An approach based upon flawed assumptions, the epistemological argument proceeds, is likely to produce explanations of observable events which are at best partial, and at worst deficient. Whether or not that is the case is the subject of the next chapter, in which the predictions associated with Niskanen’s economic model of bureaucracy are tested against the institutional consequences of the National/New Zealand First government’s Employment Strategy.

Chapter 6 - Fit for purpose? The empirical case for budget-maximisation

6.1 Introduction

There is intrinsic merit in examining the conceptual coherency of Niskanen's framework, but the 'true test of the model is if its predictions match reality, not its assumptions' (Mueller, 1986, p. 5). This research is concerned with making sense of the drivers and outcomes of the Employment Strategy: the purpose of this chapter is to assess the extent to which the orthodox economic model of bureaucracy contributes to that end. To reduce the risk of reaching conclusions which are specific to a single case-study, the relevant tests are applied in the context of recent trends within the New Zealand public service. In effect, the discussion seeks to establish the degree to which the model accounts for observable developments within one corner of the public service, and across the sector generally.

Niskanen's device is predicated upon two central assumptions: that bureaucrats are intrinsically motivated to maximise departmental budgets, and that they are generally successful in so doing. The institutional consequences of that success include increases in the number and size of departments, in the bureaucratic workforce, and in the proportion of public expenditure which departments consume. In the context of this study, public choice provides one possible explanation of both the motives of the senior DoL and DSW bureaucrats involved with the Employment Strategy, and the budgetary and institutional consequences of the decisions taken in the course of that process. Specifically, a public choice analysis would anticipate that:

- officials sought to use the Strategy as an opportunity to increase their budgets;
- the post-Employment Strategy landscape would be characterised by additional departments;
- the aggregate number of officials employed in those agencies would increase;
- those departments would account for a higher proportion of public expenditure.

Niskanen acknowledged that his 1971 publication did not contain 'the set of critical tests that are ultimately necessary to confirm (or, more accurately, fail to confirm) this theory [of bureaucracy]' (1971, p. 8).¹ His principal intent was to articulate a positive theory of bureaucratic supply: the task of developing and applying the requisite 'critical tests' he left

¹ He did, however, identify three indices for assessing the size of the bureaucracy (the first two of which approximate proxy measures used in sections 6.3.1 to 6.3.3 below):

- the percentage of net national product (defined as gross national product less capital consumption) comprising government budgets;
- the percentage of net national product comprising remuneration to employees of bureaus;
- the percentage of net national product expended on goods and services purchased by all levels of government, exclusive of transfer payments (Niskanen, 1971).

to others. It is in that spirit of inquiry that this chapter commences with a survey of the comparative research which has been undertaken by those who have accepted Niskanen's invitation to test the economic model.² Subsequently, a more focused search for signs of both the incidence and institutional effects of budget-maximising behaviour is conducted in the New Zealand context. That exploration utilises three of the proxy indicators of budget-maximisation commonly employed in the international literature: (a) trends in aggregate public expenditure, (b) employment and remuneration levels in departments, and (c) spending on operations in the core departmental sector.³ It is based upon quantitative data sourced principally from departments' Annual Reports, the Crown Accounts data prepared by Statistics New Zealand, and the Budget Economic and Fiscal updates prepared by the Treasury.

The analysis reveals that the budget-maximisation hypothesis has some limited explanatory utility as far as the Employment Strategy is concerned, but fails to describe recent trends in the broader public service. It also strongly suggests, however, that the apparent absence of budget-maximisation reflects the effectiveness of the public choice-inspired inoculation administered in New Zealand via the reform process. The configuration and output activity in the contemporary New Zealand public service is such that, as a heuristic device, the orthodox economic model is obsolete. On that basis, the chapter concludes that, certainly in the case of the Employment Strategy, revised public choice models offer more satisfactory explanations of the drivers and outcomes of bureaucratic conduct.

6.2 The comparative evidence

The business of probing the adequacy of the economic model as a predictor of bureaucratic behaviour has been taken up by a number of scholars (although in Young's view (1991), the

² Niskanen once observed that he had come to feel that his 'own contribution ... seems to have been to suggest a framework for an increasing number of other scholars to prove that I was wrong' (1998, p. 730).

³ A fourth possible measure, the overall number of departments, is not applied in any detail here for several reasons. First, budget-maximisation occurs within the parameters of existing organisations, and is not contingent upon the creation of additional agencies. Successful maximising strategies may contribute to an increase in aggregate public spending, but presumably it is in the interests of senior bureaucrats to corral that additional activity within their own departments, rather than to have to share it with new organisations. Secondly, while there are more departments in the New Zealand public service than there were twenty years ago, they tend to be smaller organisations (in terms of staffing complements, operating budgets, and range of delivery activities). In other words, a greater number of agencies now exists, but in the context of tighter fiscal parameters. That numerical increase has in part been born out of a suspicion of the motives of bureaucrats, and driven by administrations (with the support of key officials) concerned to inject greater clarity into departments' operational objectives, to more tightly specify officials' accountabilities, and to separate out functions as a means of reducing the risk of provider capture. As discussed in the concluding sections of this chapter, the cumulative effect of the reform process has arguably been to dramatically *reduce* the scope for budget-maximisation.

influence of Niskanen's account merits much more applied work than has thus far been conducted). A cautionary note necessarily applies to any review of the empirical literature for, as Lynn (1991) notes, case-study evidence is subject to a variety of selection and interpretation biases. All the same, a significant number of those who have risen to the challenge have concluded that the 'abstract, deductive theoretical approach' (Hill, 1997, p. 74) employed by rational choice, and its reliance upon problematic assumptions regarding the motivational bases of human nature, limits the degree of congruence between the economic model and observable public sector activity. Dunleavy, for one, is convinced that, its normative appeal notwithstanding, the model has 'been strikingly unconfirmed by empirical evidence in the last two decades' (1991, p. 8). The case against the empirical capacity of Niskanen's template has also been forcefully put by Self, who argues that while Niskanen's work is 'logically and mathematically elegant', it appears to be 'empirically wrong in almost all its facts' (1993, pp. 3-4). Neither is criticism of that nature limited to those who do not swim in the public choice mainstream. Mueller, for example, has acknowledged that the tendency to model rational behaviour on a single, exclusive variable (regarding which Niskanen's budgetary maximand is the exemplar) can lead to a 'very weak correspondence between predictions and what is observed' (1993, p. 148).⁴

The most comprehensive analysis of the empirical validity of the economic model is found in Blais and Dion (1991a), who bring together studies conducted in a number of jurisdictions. The authors observe that those who contribute to the debates concerning Niskanen's model tend to take one of two positions. They either 'take for granted the assumptions of the model and ... derive additional propositions', or they 'reject it out-of-hand as a simplistic and ideologically biased caricature of bureaucratic behaviour' (Blais and Dion, 1991b, p. 7). Blais and Dion do neither, but set out to navigate a middle way by assessing the empirical evidence on whether public officials attempt to, and succeed in maximising their budgets.⁵

⁴ That criticism has been levelled most vigorously at those practitioners of public choice who use 'game theory and algebraic economics to analyse multiple puzzles about individual behaviour', and who are frequently culpable of 'premature formalisation' (Dunleavy, 1991, pp. xi, 1-2). Much of the mathematical modelling used in public choice is 'so stripped down, so uncomplicated and so unambiguously specified, that ... it is hard to think of analogous political situations' (Dunleavy, 1991, p. xi). Moreover, within first principles public choice 'questions about inherently messy empirical applications are pushed aside by the pace of the development of formal models, and existing empirical knowledge is often pointlessly impugned or ignored in the process' (Dunleavy, 1991, p. 1). While there is a place for theoretically elegant modelling, the utility of such work can legitimately be questioned when its methodological implements are significantly divorced from empirical analysis.

⁵ They also offer the useful observation that the two core assumptions associated with Niskanen's model can be treated separately (Blais and Dion, 1991b, p. 8). While it may be that some bureaucrats *seek* to maximise their agency's budget, they may not always *succeed* in doing so. The reverse is less likely to apply. Barring political benevolence, while the act of attempting to maximise a budget is no guarantee of success, successful budget-maximisation is contingent upon the endeavour being attempted.

Their publication includes contributions which confirm certain aspects of the model. For instance, a survey of various qualitative studies of budget negotiations at the federal level in the United States during the Reagan administration leads one contributor to conclude that most officials argue 'strongly for maintaining or expanding their agencies' outputs and overall budgets' (although that author accepts that this is not perfectly synonymous with budget-maximisation *per se*) (Lynn, 1991, p. 64).⁶ Lynn, who admits to 'giving the model the benefit of the doubt', concedes that the evidence does not wholly support the core contentions of the maximising hypothesis, but is prepared to argue that at least some of 'Niskanen's conjectures stand up rather well to the ... evidence' (Lynn, 1991, p. 75). To that end he cites data which support the assumptions that officials are goal-driven, that they have stable preferences, and that the rewards they seek (both material and non-material) are often positively related to the discretionary budgetary resources controlled by bureaucrats.

On the other hand, a great deal of the material marshalled by Blais and Dion does not confirm Niskanen's hypotheses. Even Lynn, while remaining optimistic that it continues to possess explanatory merit in the context of the United States, accepts that before the economic model can claim to adequately explain the complexities of bureaucratic behaviour, a number of its overly parsimonious assumptions require modification. Chief amongst these he counts the need to move beyond the assumption that political sponsors are passive in budget negotiations, and to provide a more sophisticated analysis of the dynamic interactions which take place between the political and administrative wings during appropriations processes (Lynn, 1991, pp. 76-77). The issue of sponsor passivity is partially addressed by Niskanen in his revised model (and addressed at length in this thesis in chapter 10). That said, the budget-maximising model remains rooted in a particular set of institutional arrangements, and, in a comparative sense, there are clear risks associated with 'generalising too much from rather exceptional American institutional arrangements' (Dunleavy, 1991, p. 211). (Moreover, Goodin (1982; cited in Dunleavy, 1991, p. 211) has argued that Niskanen's assessment of the relative inability of political actors to constrain bureaucratic expenditure reflected an historically specific set of circumstances which have been superseded by changes made in the mid-1970s to American congressional budgetary procedures.)

Others are even less sanguine about Niskanen's capacity to explain patterns of bureaucratic supply. As a means of testing the assumption that budget increases translate into pecuniary

⁶ The pattern identified by Lynn is arguably consistent with the more informal aspects of the economic model which Blais and Dion refer to (and which were discussed in the previous chapter). In those authors' view, while the 'strong' assumption is that bureaucrats seek to maximise budgets, the informal features of the model suggest simply that they seek budget increases.

and near-pecuniary utilities for bureaucrats, Young (1991) reviews the empirical research on the links between agency budgets and bureaucrats' career trajectories. He cites Dunsire (1987), who established that while British government expenditure increased by some 36% between 1972 and 1983, total staff numbers in the core civil service fell during that period, and that while total salaries increased, they grew by less than the total spending increase (Young, 1991). (Elsewhere, Self (1993, p. 159) reports that those staffing reductions were felt most keenly amongst the *senior* ranks of the British civil service, with almost twice as many top positions being lost as middle ranking ones). Significantly, the remuneration of the most senior officials slipped against that of more junior public servants; neither could Young find evidence to suggest that salary increases had been sacrificed in order to secure non-pecuniary welfare gains.

Young also canvasses qualitative studies such as that executed by Grandjean (1981), which followed the careers of a number of federal public servants in the United States between 1963 and 1977. Grandjean established that agency (and budget) growth was one of a number of determining variables in career success (defined as salary increases and vertical promotions), but that inter-agency differences in growth rates had little systematic impact on officials' career trajectories. Significantly, none of the quantitative or qualitative tests reviewed by Young supported the assumption that a positive correlation exists between budget increases and bureaucrats' career prospects. Indeed, one of the most extensive of these (Johnson and Libecap, 1989) found that public service-wide rules regarding seniority and length of service were much more likely to influence salary and career shifts than the budgets of particular bureaux. (In a related sense, Dunleavy (1991) makes a case that sector-wide rules governing, for instance, caps on staffing levels, and salary maxima and minima, act as powerful constraints on departments budgets.⁷) On the basis of such evidence, Young concludes that 'there exists little relationship between the growth of bureaux and the career prospects of bureaucrats' (Young, 1991, p. 52).

If Young's findings call into question one of the pillars of Niskanen's model, so too do those reported by Dunsire (1991). Dunsire's analysis is an updated version of the 1987 research referred to by Young, and examines the application of Niskanen's self-regarding assumptions in the context of a climate of fiscal retrenchment, rather than expansion. Specifically, he sets out to test the proposition that the behaviour of bureaucrats during times of fiscal austerity is better explained by 'a *budget-minimising* model than a *budget-maximising* one' (Dunsire, 1991, p. 177; original emphasis). In that context he distinguishes between two alternatives to the orthodox budget-maximising model (the

⁷ The statutory devolution to chief executive level of the operationalisation of many such rules in New Zealand is addressed in section 6.3.2 below.

classical public service-oriented, disinterested civil servant, and the self-regarding budget-minimising bureaucrat) and endeavours to establish which best describes the conduct of officials upon whom retrenchment is foisted by reformist political executives.⁸ Dunsire's conclusion is that, at least in the decade to 1985 in the United Kingdom, the classical Niskanen model did not explain the actions of senior civil servants. Instead, the evidence indicated that minimisation strategies were adopted by bureaucrats, as both departmental spending and staffing levels decreased in a majority of departments during that time (Dunsire, 1991, p. 198). In addition, Dunsire found no data suggesting that those tendencies were self-regarding. There is no conclusive evidence that budget-minimising senior bureaucrats were personally rewarded by governments with increased salary packages, more promotion opportunities, or significantly larger agency budgets. In Dunsire's terms, it is the public service-regarding civil servant model, rather than the self-regarding Niskanen model, which offers the most compelling explanation of the experience of British bureaucrats during the 1970s and 1980s. And as he wryly observes, 'being a budget-minimiser when that is what your political masters wish is 'very unNiskanenish conduct' (Dunsire, 1991, p. 200).

Peters (1991) covers similar constitutional and temporal territory, and reaches conclusions which do not differ greatly to Dunsire's. Rather than exploring the nature of bureaucrats' budgetary strategies, however, Peters gathers together data regarding public expenditure trends in Western European jurisdictions, which he sifts for signs of successful maximising conduct on the part of bureaucrats. To this end he surveys trends in aggregate public expenditure, movements in the size of respective governments' expenditure on officials' wages and salaries, and shifts in the incomes of bureaucrats relative to those of private sector employees. On each count Peters finds little evidence that the prognoses of the economic model have been borne out, and concludes that the 'evidence obtained provides rather little empirical support for the Niskanen model' (Peters, 1991, p. 345).

Importantly, Peters also questions the extent to which the economic model enjoys cross-national portability, and durability. That insight is less a substantive criticism of the model than it is a reminder that the constitutional, political and institutional variables which impact upon the conduct of bureaucrats vary markedly from jurisdiction to jurisdiction (which point is returned to at the end of this chapter). Niskanen's model is described as 'peculiarly American in its description and analysis of public bureaucracies' (Peters, 1991, p. 305), but the diversity of political-bureaucratic cultures, within and across jurisdictions, makes it exceedingly difficult to 'stretch' a single model of bureaucracy across different nations. There is a particular disjuncture between the institutional arrangements which

⁸ That is, Dunsire argues that bureaucratic self-interest can manifest itself in support for budget reductions (or budget-minimisation), particularly when bureaucrats believe that politicians reward such support by bestowing other personal utility gains on officials.

apply in Washington and Westminster (and, for that matter, Wellington) respectively. The presence in the latter of a parliamentary executive and a professional public service tends to work against the 'institutional sclerosis' (see Olson, 1982, pp. 50-52) which frequently characterises relationships between political sponsors and bureaucrats in the former. That in turn has implications for the capacity of officials to maximise resources through the budget process. Contrary to Niskanen's assumption that bureaucrats wield considerable leverage in negotiations with similarly instrumental sponsors sitting on legislative committees, parliamentary committees in Westminster-style systems do not possess the capacity to configure (as opposed to scrutinise) budgets independent of the political executive. Moreover, bureaucrats' primary constitutional responsibilities are to the government of the day, and while they are called on to account for their actions before committees of the legislature, in the final instance, a department's share of total appropriations is a function of decision-making within the political executive (albeit one acting in the context of parliamentary sovereignty). Indeed, Campbell and Naulls conclude that the degree of institutional difference between Washington and Westminster makes it 'highly unlikely that the conditions that [may] lead to a high degree of budget-maximisation in the United States will prevail elsewhere' (1991, p. 114).

Institutional variation does not preclude budget-maximising behaviour amongst officials, of course, but it does suggest that a degree of prudence should accompany assertions that maximising activity occurs regardless of environment and context. In New Zealand, for instance, the institutional armoury which ministers bring to the budget game is boosted by the oversight which the Minister of Finance, and the Treasury, have regarding spending at the departmental level. The reminder that '[t]he minister of finance will have a staff of experts monitoring expenditure requests, making it more difficult for an agency to slip any excess fat through the [budget] process' (Peters, 1991, p. 319) is entirely germane to the New Zealand case.

In Niskanen's model, an agency with ambitious spending proposals is confronted only by a legislative committee staffed by elected representatives who may or may not possess much fiscal expertise and who, in any event, are not likely to invest much energy in scrutinising the proposals. In New Zealand, however, departments are faced by a series of fiscal parameters set in advance of the Budget, and an inquisitorial process of bilateral budget negotiations between their minister and a senior finance minister likely to be ranked second or third in the Cabinet. In addition, the Minister of Finance is backed by a powerful agency which advises governments on all economic and financial matters, and which plays a pivotal role in the development and management of the administration's Budget. That the Treasury has an institutionalised interest in all departmental policy initiatives with fiscal implications grants it considerable leverage over the spending plans and activities of other

agencies, and a central role in all aspects of public policy development and management. As the government's principal financial and economic adviser, the Treasury has for some time been dedicated to the efficient and effective use of public expenditure, in which respect it acts as a powerful counter-weight to officials in other (particularly delivery) departments. Moreover, unlike the situation in countries such as Italy and Belgium where a separate ministry for the budget is responsible for overseeing expenditure requests (Peters, 1991), the New Zealand Treasury has oversight of both revenue and expenditure decisions, and, moreover, combines policy and operational functions. The Treasury occupies a central position in matters to do with departments' proposed expenditure plans, and its inherent fiscal conservatism represents a formidable obstacle to agencies with designs on increased budgets.

Finally, Blais and Dion's own thoughtful reflections on the efficacy of the budget-maximising hypothesis are worth noting. Having constructed a comprehensive review of the empirical data on the economic model of bureaucracy, they conclude that there is 'ample evidence that *bureaucrats systematically request larger budgets*' (Blais and Dion, 1991c, p 355; original emphasis). Whether or not such requests are motivated by a desire for personal aggrandisement and pecuniary reward is not empirically established, but the prevalence across jurisdictions of institutional budget control mechanisms (see Aucoin, 1991, pp. 137-139) strongly suggests that politicians, at least, are convinced that they are.

The authors also find some support for Niskanen regarding the impact which bureaucrats have on the outcomes of budget games. That influence seems to be related to the vigour with which ministers (in parliamentary democracies) advocate spending increases in their portfolios, and the extent to which congressional committees (in the United States) scrutinise departments' expenditure proposals, but in either case it seems that bureaucratic advocacy is necessary to the extraction of budget increases. But Blais and Dion reject the proposition that political sponsors are passive actors in the appropriations process. Certainly, there is variability in the extent to which a sponsor will take a detailed and active interest in a budget round. Indeed, in the New Zealand context the assumption that all ministers closely engage with the negotiation of purchase agreements has been described by a former Minister of State Services as 'a bold leap of faith' (Upton, 1999, p. 12). However, all of the evidence Blais and Dion have surveyed points to the fact that 'politicians do exert substantial control on budgetary matters' (Blais and Dion, 1991c, p. 358).

Although they accept there is some merit to the first component of the budget-maximising thesis (that public officials attempt to maximise their budgets), the authors are not convinced of the efficacy of the second of the core assumptions (that bureaucrats are overwhelmingly successful budget-maximisers). First, they find little evidence that

bureaucrats consistently pursue budget-maximising strategies. In this respect, Blais and Dion (1991c, p. 356) prefer to describe bureaucrats' strategies as budget-boosting, rather than as budget-maximising. Officials are well aware that beyond a certain fiscal range, the prospects of winning increments from politicians rapidly recede. Therefore, they tend to submit proposals for modest, rather than extravagant increases in appropriations. Neither are there systematic indications that budget increases translate into direct financial gains for senior bureaucrats. On the contrary, the comparative data indicate that not only have senior officials in many jurisdictions lost ground against their counterparts in equivalent private sector positions, but that salary compression has occurred within various public sectors to the extent that junior bureaucrats have tended to gain in the remuneration stakes relative to the most senior bureaucratic *cadré*. Finally, the empirical record does not reveal a positive correlation between budget increments and larger staffing complements. Regarding this issue Blais and Dion find common cause with Simard (1999), who undertook a survey of employment trends within the Japanese bureaucracy between 1969 and 1996. Simard's research revealed that despite expending considerable resources on efforts to increase staffing levels, Japanese officials have been consistently unsuccessful at boosting the number of public servants (Simard, 1999, p. 58). Blais and Dion have found that much the same pattern applies in Western European contexts, regardless of shifts in overall budgets.

However, while they concede that budget-maximisation does not accurately describe all bureaucratic conduct, the authors accept that it occurs sufficiently frequently to constitute a 'building block of a theory' of bureaucracy (Blais and Dion, 1991c, p. 359). To that extent, at least, Niskanen's theory provides valuable insights into certain aspects of bureaucratic behaviour. But the empirical evidence does not permit a whole-hearted endorsement of the proposition that the maximising propensities of bureaucrats result in greater numbers of departments spending ever-increasing budgets. In the view of Blais and Dion, there is simply too much evidence to the contrary to uphold this fundamental component of Niskanen's model. Bluntly, on the international stage, the argument that bureaucrats are systematically successful at securing larger budgets is 'simply dead wrong' (Blais and Dion, 1991c, p. 360).

6.3 The New Zealand experience

Blais and Dion (1991b) note that empirical tests of Niskanen's model tend to examine one or other (and typically the second) of its two central assumptions: (a) that officials seek to maximise budgets, and (b) that their endeavours are usually successful. The methodological issues associated with identifying evidence of the first assumption are explored in Appendix 1 of this dissertation; they hinge around the difficulties inherent in establishing with any

degree of confidence the nature of bureaucrats' motives on the basis of data which is self-reported by officials.

As far as the institutional architecture of bureaucracy and trends in public spending are concerned, both of which are central to this study of the Employment Strategy, it is the degree to which the second assumption applies that is of most significance. There are various reasons why senior officials might seek larger budgets (many of which are not a direct function of rational egoism), but it is the success of those endeavours which has a direct bearing upon the machinery of government and expenditure trends. For that reason, the following section searches through the Employment Strategy and sifts fiscal data drawn from official sources between 1990 and 1999 for evidence of successful budget-maximisation on the part of senior bureaucrats in the New Zealand public service.⁹

6.3.1 government expenditure

Perhaps the crudest evidence of the success or otherwise of budget-maximising strategies can be gleaned from aggregate public expenditure patterns. If Niskanen's hypothesis possesses any domestic currency whatsoever, then increases over time in total spending by New Zealand governments would be anticipated. After all, some fiscal cushion is a necessary prerequisite for the maximisation of total or discretionary budgets. And while it may not be possible to explain increases in public expenditure solely as a function of officials' budget-maximising proclivities (given that politicians' fiscal preferences are crucial to expenditure decisions), equally, consistent reductions in spending would imply failure on the part of bureaucrats to maximise either overall or surplus budgets.

Table 6.1 - Total government expenditure (\$million; June years)¹⁰

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 27,061 | 26,814 | 25,748 | 26,535 | 29,027 | 32,148 | 33,682 | 33,415 | 33,873 | 33,269 |

(source: *Statistics New Zealand, 1999*)

The data in Table 6.1 appear to bear out the maximisation thesis on this count, for over the last decade or so, public spending has indeed increased (although increments have not

⁹ This timeframe encompasses the establishment of the agencies which are the focus of this study, and the better part of the decade of reform which preceded those events. More recent data is judiciously drawn upon where appropriate.

¹⁰ The fiscal data in this chapter are reported in nominal dollar values rather than in real terms. In nominal and inflation-adjusted terms the conclusions drawn on the basis of those data hold.

accrued in each consecutive fiscal year¹¹). That trend does mask the evolution of individual departments' operating budgets, and so cannot be interpreted as incontrovertible evidence of successful budget-maximisation. However, at the very least the data demonstrate that the quantum of public resource which can 'serve as the raw material for bureaucratic expansion' (Peters, 1991, p. 333) has expanded over the last decade.

The fiscal preconditions for successful budget-maximisation may have been fulfilled, but the temptation to take the leap of faith required to explain increases in public spending as a function of budget-maximisation should be resisted for the following reasons. First, the economic model assumes that spending increases directly translate into a larger bureaucratic sector, which in turn accounts for an ever larger portion of the domestic economy. But in fact, the spending of New Zealand governments has been falling as a proportion of gross domestic product (GDP) since the early 1990s.

Table 6.2 - Government expenditure as a percentage of GDP (June years)

| Category | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Social security | 16.2 | 14.2 | 13.5 | 13.3 | 13.2 | 13.2 | 13.2 | 12.7 |
| Health | 5.6 | 5.7 | 5.6 | 5.7 | 5.9 | 6.1 | 6.2 | 5.9 |
| Education | 6.1 | 5.7 | 5.5 | 5.4 | 5.6 | 5.8 | 5.7 | 5.5 |
| Finance Costs | 5.3 | 4.7 | 4.3 | 4.0 | 3.2 | 2.8 | 2.5 | 2.5 |
| Core govt. | 8.6 | 7.5 | 6.7 | 6.8 | 6.6 | 6.9 | 6.6 | 6.1 |
| Total¹² | 41.8 | 37.8 | 35.6 | 35.2 | 34.5 | 34.8 | 34.2 | 32.7 |

(adapted from State Services Commission, 1999b)

Note:

1. 'Core government' denotes expenditure net of social spending (health, education and welfare) and debt financing (State Services Commission, 1999b, p. 6).

Contrary to the situation in certain European jurisdictions, where public expenditure 'seems to have a life of its own' (Peters, 1991, p. 334), in New Zealand the percentage of GDP which constitutes government spending has fallen some 10% since 1993. Having risen to 41.9% in the 1990/91 financial year, the proportion had dropped to 34.2% in the year to June 1999. (It slid still further to 33.9% in the year to 2000 (Treasury, 2001), at which point it stood at its lowest level since 1977.) Interestingly, the 1999 figure is only

¹¹ While there has been an increase in current expenditure of some \$6,208 million between 1990 and 1999, spending fell in four of those ten years (the years to June 1991, 1992, 1997, and 1999).

¹² These figures are net of three categories which the State Services Commission uses in its modelling: net foreign exchange losses/gains, provision for future initiatives, and contingency expense provisions.

marginally less than the public expenditure/GDP ratio of 35.2% which applied in 1980 (State Services Commission, 1999b, p. 33). On the basis of the assumptions derived from Niskanen's model, some two decades ago a vastly inflated ratio might have been forecast to apply at the end of the twentieth century. Instead, the ratio continues to slide as the departmental sector comprises an ever smaller slice of domestic economic activity.

6.3.2 employment and remuneration in the public service

Of course, had New Zealand experienced spectacular economic performance during the 1990s, even a falling expenditure/GDP ratio might have generated net utilities to budget-maximising bureaucrats. With the exception of the years 1994 and 1995, however, during which real GDP increased by 6.3% and 5.4% respectively (Reserve Bank, 1998), economic growth in the local economy has been relatively modest (Dalziel and Lattimore, 1999).

Public spending/GDP ratios provide an imprecise profile of developments in the public service, and a more comprehensive test of the economic model requires a disaggregation of public expenditure. Dunsire (1991, p. 190) provides a useful point of departure, noting that within the budget-maximising literature 'there is more than a suggestion ... that the real aim of self-regarding bureaucrats in maximising budgets is to maximise establishment, or staffing: it is extra staff that is said to bring more prestige, promotion and power' (in addition, see Simard, 1999). If that is so, then over time it should be possible to detect an increase in the numbers of officials employed in the machinery of government.

But an examination of employment trends in the public service over the last decade suggests that budget-maximising officials have been hard pressed to maintain, let alone to increase, their staffing complements. Indeed, the record in New Zealand bears similarities to patterns observed by Dunsire (1987) in the United Kingdom, where increases in public spending occurred in tandem with reductions in the number of civil servants. In New Zealand, there has been a striking drop in the number of officials employed in government departments since the late 1980s. The public service workforce had shrunk (some might say atrophied) from 88,000 full time equivalent positions in 1984 to fewer than 30,000 (for the first time since World War 1) by June 1999 (State Services Commission, 1999a, p. 2).¹³ And notwithstanding that the momentum of structural reform has, perhaps, slowed in recent years, that downward trajectory continues. There was a 6.9% reduction in the size of the departmental labour force between June 1997 and June 1999 (State Services

¹³ The State Services Commission's Yearly Employment Survey was first produced in 1999, and comprises human resource information from the departmental sector and other selected public sector organisations. Since 2000 it has collected data on departments on a unit record basis, enabling analyses of disaggregated data. Data from earlier surveys, however, is exclusively of an aggregate nature (and that regarding selected state sector agencies remains of an aggregate nature). The figures here reflect numbers of full time equivalent staff, including both permanent and temporary employees.

Commission, 1999a). Moreover, in late 1999 officials constituted just 1.8% of the total employed labour force in New Zealand; as recently as 1987 that figure had stood at 5.7% (State Services Commission, 1999a, p. 2).¹⁴

Aggregate figures on sector-wide employment patterns may, of course, hide quite varied developments within particular departments, and from department to department, and it is conceivable that some bureaucracies have managed to avoid swingeing reductions in their establishment staff in the midst of a wider process of retrenchment. Perhaps, then, the budget-maximising hypothesis might be said to broadly apply if it were the case that a majority of departments have either maintained or increased their staffing bases in recent times. Table 6.3, which provides a profile of staffing changes over time in selected public service departments, indicates that this does not appear to have been the case.¹⁵

Table 6.3 - Employment levels in selected departments ¹⁶

| Department | 1990 | 1995 staff | 1999 | % change (1990-1999) |
|----------------------------|-------|---------------|-------|-------------------------|
| Commerce | 694 | 695 | 738 | +6.34 |
| Conservation | 1,795 | 1,583 | 1,695 | -5.57 |
| Crown Law Office | 54 | 86 | 121 | +124 |
| Customs | 831 | 815 | 682 | -17.93 |
| Defence | 60 | 66 | 60 | n/c |
| Prime Minister and Cabinet | 38 | 109 | 109 | +186.84 |
| Education | 885 | 506 | 581 | -34.35 |
| Education Review Office | 306 | 163 | 155 | -49.35 |
| Environment | 105 | 115 | 100 | -4.76 |
| Foreign Affairs/Trade | 656 | 631 | 602 | -8.32 |
| Health | 804 | 443 | 459 | -42.91 |
| Inland Revenue | 5,827 | 6,019 | 4,578 | -21.43 |
| Internal Affairs | 3,172 | 956 | 1,002 | -68.41 |
| Land Information | 1,020 | 1,011 | 678 | -33.53 |
| Maori Development | 677 | 283 | 333 | -50.81 |
| National Library | 562 | 486 | 385 | -31.49 |
| Public Trust | 562 | 487 | 434 | -22.78 |
| State Services Commission | 191 | 129 | 134 | -29.84 |

¹⁴ A year later, in June 2000, the number of full time equivalent staff in departments had fallen a further 1.4% to 29,055, comprising 1.7% of the total labour force (State Services Commission, 2001, p. 1).

¹⁵ The departments selected are those whose functional responsibilities and organisational boundaries remained substantially intact during the 1990s. The magnitude of organisational change in the public service since 1990 makes it difficult to track with absolute precision the evolution of a number of departments. Therefore, Table 6.3 does not include agencies established as distinct entities since 1990, such as the Office of the Auditor General (created out of Audit New Zealand in 1994; 45 staff as of June 1999), the Serious Fraud Office (1991; 37 staff), and the departments of Courts (1996; 1,815 staff), Corrections (1996; 3,786 staff), Work and Income (1998; 4,924 staff), and Child Youth and Family (1999; 1,969 staff as at September 1999). Neither does it include the Ministries of Cultural Affairs (1992; 10 staff), Fisheries (1996; 322 staff), Housing (1993; 121 staff), Pacific Island Affairs (1991; 29 staff), and Research Science and Technology (1991; 38 staff).

¹⁶ Table 6.3 draws on data from the State Services Commission (2000) which aggregates information collected from departments during regular six monthly and annual surveys.

| | | | | |
|------------------------|--------|--------|--------|--------|
| Statistics | 960 | 921 | 734 | -23.54 |
| Treasury | 340 | 384 | 344 | +1.18 |
| Women's Affairs | 47 | 35 | 37 | -21.28 |
| Youth Affairs | 24 | 23 | 22 | -8.33 |
| Total | 20,030 | 16,197 | 13,879 | -30.71 |

(adapted from State Services Commission, 2000)

Eighteen of the twenty two departments surveyed in Table 6.3 shed staff between 1990 and 1999. While they are broadly indicative of trends in the wider public service, these data should nonetheless be treated with some caution. For the reasons outlined in footnote 15, they do not include all departments, and so do not capture the staffing impacts of organisational change in significant policy domains such as agriculture, justice, and social welfare (for the latter, see Table 6.4). Moreover, the incidence of inter-departmental migration is such that not all officials who are shed from specific agencies are lost to the public service.¹⁷

Those caveats aside, the overwhelming majority of the departments surveyed in Table 6.3 have experienced reductions in their personnel over the last decade, some of which have been substantial. The largest rates of attrition have been sustained in organisations, such as the departments of Inland Revenue and Internal Affairs, which have major delivery responsibilities (the significance of which point is further explored below). On the other hand, very few departments have gained additional staff, and the two which have secured the largest relative increases, the Department of Prime Minister and Cabinet and the Crown Law Office, are relatively small agencies which are principally policy-focused.¹⁸ That, too, would appear inconsistent with the model's predictions, which are that staff increases are most likely to accrue to line departments which have significant delivery responsibilities, the execution of which requires an extensive staffing base (and a substantial budget).

The evidence canvassed so far suggests that staff-minimisation, rather than staff-maximisation best describes what has occurred within the public service in the reform era. However, perhaps it is not unreasonable to propose that there will be greater evidence of staff-maximisation in those bureaucracies which have undergone major structural reconfigurations since 1990. That is most likely to be the case where large, multi-function departments have been disaggregated into two or more functionally-specific, stand-alone

¹⁷ The State Services Commission has estimated that the average annual rate of turnover of staff between 1996 and 2000 was 14.9%; however, it also acknowledges that it 'is unclear how much of this turnover represents a capability loss to the Public Service, because departments do not hold reliable data on movement between Public Service departments' (State Services Commission, 2001a, p. 6).

¹⁸ In recent years the Department of Prime Minister and Cabinet has also acquired additional functions, which will have had a bearing on staffing levels.

agencies. In such instances, the establishment of new organisations, each with specific administrative and staffing requirements, creates opportunities for maximising senior bureaucrats to consolidate and expand their staffing quota.

As chapter 3 demonstrated, extensive institutional reform was precisely what occurred as a consequence of the National/New Zealand First coalition's Employment Strategy. The DoL retained a policy capacity but lost the delivery responsibilities of the Employment Service, while within the DSW the administration of income support services was decoupled from both policy advice and the delivery of child protection services (and the latter was subsequently separated from the parent department). As a result, in the year to 1 October 1999 the total number of departments servicing the domains of welfare and labour increased from two (the DoL and the DSW) to four (the DoL, the Department of Work and Income, the Department of Child, Youth and Family Services and the Ministry of Social Policy). (That number has since fallen by one with the merging of the Department of Work and Income and the Ministry of Social Policy to form the Ministry of Social Development.¹⁹)

Table 6.4 - Employment levels in welfare and labour²⁰

| Department (1990) | staff | Department (1999) | staff | % change (1990-1999) |
|-----------------------|-------|-----------------------------|-------|----------------------|
| Social Welfare | 8,028 | Social Policy | 180 | |
| | | Work and Income | 4,924 | |
| | | Child, Youth, Family | 1,969 | |
| Total | 8,028 | | 7,073 | -11.89 |
| Labour | 2,140 | Labour | 783 | -63.41 |

As far as the employment of officials is concerned, the pattern depicted in Table 6.4 is consistent with that revealed in Table 6.3. Major organisational change in the departments of Labour and Social Welfare reduced the numbers of bureaucrats employed in the agencies spawned by the Employment Strategy. In one stroke the creation of the Department of

¹⁹ This thesis was completed shortly after the establishment of the Ministry of Social Development in October 2001 (which event is discussed more fully in chapter 10). Where pre-2001 data are used, reference will be made to the Department of Work and Income; when the present tense is employed, reference will be made to the Ministry of Social Development.

²⁰ The figures in Table 6.4 reflect numbers of full time equivalent staff, including both permanent and temporary employees. The data from 1990 was provided by the State Services Commission (State Services Commission, 2000). The 1999 figures for the Ministry of Social Policy are taken from that agency's 1999 post-election briefing papers (Ministry of Social Policy, 1999); those for the Department of Child, Youth and Family Services were received in personal communication with the department, and applied as at 23 September, 1999; and the information for the Department of Work and Income and the DoL is from the State Services Commission (State Services Commission, 2001a).

Work and Income decimated the DoL, and the numbers employed across the three departments which emerged out of the disaggregation of the DSW fell by over 10%. In total, the combined workforce of the four agencies which were either newly constructed or substantially re-configured between 1998 and 1999 was some 22.73% smaller than that which had existed at the time Roger Sowry and Peter McCardle received their ministerial warrants. If, as Dunsire (1991) suggests, staffing increases constitute one of the critical indicators of successful budget-maximisation, the evidence suggests that the bureaucrats in charge of the DoL and DSW were either disinterested in maximising their budgets, or not especially adept at doing so.²¹

The evidence looks a little more favourable for Niskanen on the issue of remuneration levels within the public service. With its emphasis on the centrality of pecuniary rewards to the incentives which drive officials' behaviour, public choice argues that salaries paid to bureaucrats will, over time, comprise an increasing component of total public expenditure (Peters, 1991, p. 331). Some evidence to that effect might have been expected following the devolution of the employer function to departmental chief executives with the passage of the *State Sector Act* in 1988. After all, with the dismantling of the centralised system for determining public sector wages and salaries, lead bureaucrats might have been expected to use their executive control over remuneration settings to reward appropriately instrumental behaviour amongst the public servants in their employ.

However, the scope for pecuniary gain has been constrained by a steady reduction in aggregate expenditure on the payment of departmental staff. Between 1990 and 1999, public spending on the compensation of employees fell from \$3,373 million per annum to \$2,759 million per annum (Statistics New Zealand, 1999).²² Moreover, in 1990 wages and salaries accounted for 61.4% of the spending associated with the production of departmental goods and services, and 12.5% of total public expenditure; nine years later, those proportions had fallen to 54.4% and 8.3% respectively (Statistics New Zealand, 1999). Significantly, too, between 1992 and 1999 salaries and wages in the public service moved by a total of +6.7% (as measured by Statistics New Zealand's Labour Cost Index), compared with a +10.8% movement across the economy as a whole (State Services Commission, 1999b, p. 22). Contrary to the received wisdom that the 'absence of a market restraint on wages means that the ... civil service is able to extract substantial wages for

²¹ In the case of the DSW that does not appear to have been a recent phenomena. Between 1990 and the shedding of the Income Support Service in 1998, its staffing base fell each consecutive year (with the exception of 1995/1996), from a total of 8,028 in 1990 to 5,797 in 1998 (State Services Commission, 2000). By comparison, during the equivalent period the DoL increased its staffing complement from 2,140 to 2,242 (State Services Commission, 2000).

²² The data are drawn from the Crown Accounts prepared by Statistics New Zealand for the year to June 1999.

itself' (Peters, 1991, p. 343), New Zealand's public servants have become a little worse off relative to those employed in the wider economy.

Senior bureaucrats are better placed to utilise 'the power they are alleged to possess ... to force ... salary improvements' for themselves (Peters, 1991, p. 339). Salary increases in the top echelons of the public service are generally justified (or at least sought) on the grounds that parity with comparable private sector positions is essential in order to recruit and retain the best people for the job (State Services Commission, 1998a, p. 14).²³ If, as Niskanen maintains, the most senior bureaucratic cadre is both self-interested and able to manipulate political sponsors, then it is at the pinnacle of the bureaucracy that evidence of successful budget-maximising practices is most likely to appear (although see Goodman's conclusions regarding the importance to chief executives of remuneration in section 5.3.1).

Such data as is available indicate that the salaries of contemporary public service chief executives have indeed increased in recent years. Between 1988 and 1997 the salary for 'the average-size' chief executive increased by 43%; when adjusted for inflation, that amounted to a 10% increase in real terms over nine years (State Services Commission, 1998a, p. 19).²⁴ In the subsequent year, the average increase was 7%-8%, with 'a very small number of chief executives, who had demonstrated outstanding professional performance and dedication over an extended period' receiving increases in excess of 10% (State Services Commission, 1998a, p. 20), and in the year to 1999, the equivalent increase was 6.7% (State Services Commission, 1999c, p. 10).

More specifically, the annual salary of the chief executive of the DSW increased from between \$240,000 - \$249,999 in 1996/1997 to between \$270,000 - \$279,999 in the year to June 1999 (during which period her workforce fell from 5,980 to 183) (State Services Commission, 1999c, p. 14). The equivalent trend for the chief executive of the DoL was movement from \$210,000 - \$219,999 in 1996/1997 to \$240,000 - \$249,999 in the year to June 1999 (as the size of the DoL fell from 2,167 to 843) (State Services Commission, 1999c, p. 14). On those various bases, then, a case can be made that at the highest level bureaucrats have successfully ensured that a portion of the increase in overall public spending has found its way into increases in their remuneration packages.

²³ That link was formally broken with the adoption in May 1997 of a new policy for determining the remuneration of chief executives. The policy sets the salaries of public service chief executives against the remuneration of those in the wider public sector (State Services Commission, 1998a). At the time the State Services Commissioner noted that a sizeable remuneration gap had opened up between the base salaries of public and private sector chief executives (State Services Commission, 1998a, p. 16).

²⁴ For the purposes of setting remuneration levels the roles of public service chief executives are grouped into five bands which reflect their relative size, complexity and task-composition (State Services Commission, 1999c, p. 10).

Certain caveats attach to that proposition, however. In the first instance, it is not possible to obtain precise data on changes in the salaries of individual chief executives. The sole source of such information is the Annual Report of the State Services Commissioner. Because the details of the employment relationship between chief executives and the Commissioner are confidential the information on salaries is reported in ranges of \$10,000. As such, there is no way of assessing in other than broad terms the trajectory of trends in the remuneration of particular bureaucrats; neither is it possible to distinguish between the various components of a total remuneration package.²⁵

More importantly, for the budget-maximising hypothesis, in New Zealand departmental chief executives do not determine their salaries, and neither are these linked to patterns in the overall composition or size of a department's operating budget. Chief executives' conditions of employment, including remuneration, are set on behalf of the Crown by the State Services Commissioner.²⁶ The Commissioner enjoys some flexibility in executing that prerogative, but 'in exercising discretion the Commissioner operates within boundaries determined by the Government [which] determines the total sum of money available each year for chief executive remuneration' (State Services Commission, 1998a, p. 18). Moreover, Section 38 the *State Sector Act* 1988 requires the Commissioner to secure the agreement of both the Prime Minister and the Minister of State Services before any remuneration package for a chief executive can be agreed.²⁷ In short (and in a practical demonstration of the point made by Campbell and Naulls (1991) concerning the effects of diverging institutional contexts), unlike Niskanen's senior bureaucrats, senior officials in the New Zealand public service have no scope to ratchet up their salaries. Decisions regarding the parameters of remuneration offers are not theirs to make.

6.3.3 expenditure on operations in the public service

How then, in the context of the budget-maximising hypothesis, to explain the apparent contradiction between continuous growth in public spending, and a shrinking public service offering remuneration rates which appear to be lagging behind those of the private sector? A detailed examination of the distribution of public expenditure, in which the payment of

²⁵ Chief executives are offered a single sum, but may then choose the balance of salary and/or benefits-in-kind in which they wish to receive that sum. Benefits-in-kind are currently limited to a vehicle with a purchase price of not more than \$46,000 and an annual expense allowance. In addition, government meets the cost of superannuation contributions (State Services Commission, 1999c, pp. 18-19).

²⁶ The State Services Commissioner does not set the remuneration packages for the chief executives of the State Services Commission, the Crown Law Office, or the Audit Department. In those instances the function falls to an independent Higher Salaries Commission (State Services Commission, 1999c, p. 8).

²⁷ With the exception of the package for the chief executive of Statistics New Zealand, for whose conditions of employment such agreement is not required (State Services Commission, 1999c, p. 8).

income support and expenditure on non-departmental service providers is juxtaposed against spending on the core operational budgets of the government's own departments, provides an answer.

Table 6.5 - Total current government expenditure (\$million; June years)

| Category | 1990 | 1993 | 1996 | 1999 | % change (1990-1999) |
|--------------------------------------|--------|--------|--------|--------|-------------------------|
| Final consumption expenditure | 5,488 | 4,428 | 4,493 | 5,071 | -7.59 |
| Social assistance grants | 10,838 | 11,729 | 13,067 | 14,871 | +37.21 |
| Other government | 5,434 | 6,586 | 7,420 | 9,054 | +66.61 |
| Other NZ residents | 299 | 431 | 365 | 422 | +41.13 |
| Total expenditure | 27,061 | 26,535 | 33,682 | 33,269 | +22.94 |

(source: *Statistics New Zealand, 1999*)

Notes:

1. 'Final Consumption Expenditure' captures the net cost of providing government services to the national community (that is, the value of the output produced directly by departments). It includes compensation of employees, other expenses, and sales revenue, and is the most accurate gauge of the resource consumed in the production of goods and services;
2. 'Social Assistance Grants' incorporates expenditure on income support paid to individuals and families, including the Unemployment benefit, Domestic Purposes benefit, and Superannuation (the single largest class of expenditure in this category);
3. 'Other Government' includes transfers between the different sub-sectors of general government. The major components include direct grants to health purchasing agencies, universities, schools and Transit New Zealand;
4. 'Other New Zealand residents' covers transfers to private, non-profit organisations.

The trends revealed through this more detailed examination of the end-uses of public expenditure constitute the most compelling evidence against Niskanen's predictions of a bloated bureaucratic sector. At least three crucial conclusions can be reached from the data. The first is that a sizeable portion of the increase in public spending is accounted for by growth in the payment of social assistance grants, which do not directly accrue as operating revenue to departments. Increases in the payment of welfare benefits might, of course, constitute a case for expansion in the staffing and administrative arrangements required to process, deliver and monitor transfer payments. However, while the core public sector (principally the Ministry of Social Development, formerly the Department of Work and Income) continues to exercise a monopoly over the administration of income transfers, that resource does not constitute revenue which can typically be drawn on for the sorts of

utility-maximising purposes specified in the economic model of bureaucracy. The chief executive of the Ministry cannot, for instance, utilise resources ringfenced for social assistance to employ additional staff; initiatives of that nature would have to be prosecuted with funds drawn from the department's core operational budget (final consumption expenditure). In any event, as Petrie (1998, p. 58) has pointed out, mounting workloads have not translated into larger staffing bases in benefit administration agencies. Between 1993 and 1997, the number of benefit applications processed by Income Support Service staff increased from 391,374 to 446,649: during that period, however, total staffing in the organisation fell sharply from 5,200 to 3,300 (Petrie, 1998).

Secondly, while the quantum paid out in social assistance grants has been increasing over time, the net cost of providing core government services has been falling steadily. In New Zealand, investment in the capability and operations of the public service is in decline. Throughout the 1990s expenses incurred by departments through factors such as rents, power and other operating overheads remained relatively constant, and revenue generated through the sale of output to third-party purchasers increased slightly. However, spending on the wages and salaries of employees fell by 18.20% (Statistics New Zealand, 1999). A significant part of that reduction is a function of the fall in the number of officials employed in the public service. In absolute terms, though, the proportion of that part of a department's operating budget over which senior bureaucrats exercise most discretion, and from which the bulk of their personal utilities are assumed to derive, comprises a smaller and smaller proportion of aggregate public expenditure.

That would suggest that the capacity for lead bureaucrats to engage in successful budget-maximising strategies, and to reward similar conduct amongst their employees in a pecuniary fashion, has become correspondingly constrained. It does seem, however, that the two departments which are central to this project have been partial exceptions to that broad trend. Between 1990 and 1998 the size of the DSW's workforce fell by 27.79%, yet its budget for personnel expenses increased by 6.42%.²⁸ The experience in the DoL during that period was not dissimilar. Its total staff increased slightly (by 4.54%), but its personnel budget rose by 25.76%. In both instances, staffing movements were considerably offset by increases in expenditure on personnel.

Finally, however, those experiences need to be considered in light of the fact that the continuous reduction in the core operating budgets of departments has been paralleled by a

²⁸ These dates allow for the effects of the establishment of the Department of Work and Income to be discounted. The information on staff numbers is from the State Services Commission (State Services Commission, 2000), while the figures on personnel expenses derive from the departments' respective Annual Reports for 1990 and 1998, and from Statistical Reports published by the DSW (DSW, 1991; 1997b).

dramatic increase in the funding of both non-departmental public sector organisations, and non-public sector agencies.²⁹ Overall increases in government spending are not accruing to departments, but to Crown entities and non-statutory providers.³⁰ In 1999 total public expenditure was almost 23% higher than it had been in 1990. However, the amount spent on transfer payments and the direct funding of non-departmental providers (both public and private sector) constituted a significantly greater proportion of total expenditure at the end of the decade (73.18%) than it had nine years previously (61.23%) (Statistics New Zealand, 1999).³¹ More specifically, while funding for non-departmental public providers rose by \$3,620 million, and that for non-public providers grew by some \$123 million, expenditure on goods and service delivered by the public service decreased by some \$417 million. A decade ago, 20% of public spending was directed towards outputs produced directly by departments, but in 1999, that proportion stood at just over 15%, having fallen as low as 13.5% in 1998 (Statistics New Zealand, 1999).

The magnitude of the trend away from spending on the capacity of the departmental sector has prompted the State Services Commission to warn that 'there is insufficient expenditure in the core government area to enable cuts in this expenditure to have any effect on the long-term fiscal position' (State Services Commission, 1999b, p. 23).³² Government departments in this country bear little resemblance to those which inhabit Niskanen's model. Far from witnessing 'an expansion of already existing large agencies, or certainly no diminution in their scale of activities' (Dunleavy, 1985, p. 325), there has instead been a steady shift away from departments as preferred suppliers of output to the political executive. Departmental budgets are shrinking, not expanding, as a proportion of public expenditure, and in relative terms, the quantum of public resource for which budget-maximising bureaucrats could compete is reducing. That need not preclude successful maximising behaviour on the part of at least some senior bureaucrats, but it would certainly

²⁹ Ironically, a similar trend has been detected in the United States, where Light (1999; cited in Norman, 1999, p. 16) has established that while 1.9 million officials are formally employed by federal funds, in excess of seventeen million workers are indirectly remunerated through those revenues.

³⁰ See footnote 15 of chapter 3 for the governance arrangements which apply to Crown entities. As at May 2001 there were thirty nine public service departments, and 2,817 Crown entities (including 2,624 School Boards of Trustees) (State Services Commission, 2001b, p. 1).

³¹ Between 1990 and 1999 the amount disbursed in social assistance grants (including health, housing and community, education and social welfare payments) expanded by \$4,033 million (some of which will have been in response to demographic factors such as an ageing population). The equivalent increase in funding to the non-departmental public sector was \$3,620 million.

³² For the purposes of the fiscal modelling in which context this conclusion was reached, the State Services Commission operationalised core government expenditure as that portion of residual government spending which remains after social spending and debt servicing has been subtracted from total expenditure (State Services Commission, 1999b, p. 42).

constrain both the capacity for service-wide behaviour of that nature, and the magnitude of its impact on fiscal aggregates.

The empirical record in New Zealand indicates that, in the main, the predictions associated with the economic model have not been borne out over the last decade. Such budget-maximisation as might have been attempted appears to have been spectacularly unsuccessful, and if anyone can be said to have benefited from the growth in public expenditure, it has not been the core public service. The number of public servants has plummeted, and spending on the delivery of departments' goods and services has fallen away in favour of the purchase of outputs from non-departmental providers.

Even the contention that the bureaucratic growth and over-supply assumptions may apply to line agencies with significant delivery responsibilities in a broader context of retrenchment (Dunleavy, 1985) does not seem to describe the New Zealand experience. In the context of this project, for instance, the total numbers employed in the two key organisations, the DoL and the DSW, collapsed as a result of decisions taken in the Employment Strategy; even when figures for the departments of Work and Income and Child, Youth and Family Services are added to the mix, the overall trend remains a downward one. On the other hand, resources for the remuneration of personnel did increase over the last decade in the DoL and the DSW, on which basis it could be argued that Niskanen's predictions regarding the propensity of bureaucrats to seek out pecuniary gains have some application. But when that fact is balanced against overall trends in public expenditure, the evidence indicates that budget-maximisation does not comprehensively describe recent developments in either the Employment Strategy or the public service more broadly. On the contrary: to paraphrase Niskanen (1971, p. 8), in both cases the evidence tends instead to 'fail to confirm' the economic model of bureaucracy.

6.4 Model without a cause?

Earlier in this chapter, reference was made to Aucoin's suggestion (1991, pp. 137-139) that the widespread erection of expenditure control mechanisms suggests that, globally, legislators have shared Niskanen's assumptions regarding bureaucrats' motives. New Zealand has not been an exception to this pattern. The template for the public sector reform process, *Government Management* (Treasury, 1987):

... *alleges* serious deficiencies in New Zealand's system of government, [but] it deduces these from the *logic* of institutional economics, not from the systematic study of public organisations. The *evidence* offered of government failure is slim - an incident here and there. ... The brief also has

an undertone of ‘everybody knows government is inefficient, so there is no need to prove the point’ (Schick, 1996, p. 18; emphasis added).

The Treasury’s post-election briefing papers gave considerable impetus to the construction of a series of institutional arrangements based upon public choice assumptions regarding bureaucratic failure (see Goldfinch, 2000). The edifice was, amongst other objectives, expressly intended to reign in the presumed fiscal excesses of bureaucrats, and it ‘was not accidental that the ... reforms affect[ed] the ability of rational bureaucrats to engage in budget-maximising behaviour’ (Michaels, 1999, p. 143).

That little empirical evidence of systemic government failure was marshalled by the first generation of reformers did not prevent their preferred solutions from being portrayed as the only alternative to existing policy settings, nor did it stop those prescriptions rapidly attaining the status of ‘common sense’ (Goldfinch, 2000, p. 20). The argument pursued in the final section of this chapter is that the trends in departments’ budgets, staffing complements and salaries noted above are in large part a consequence of the institutional innovations pursued since the late 1980s. The post-reform public service architecture in New Zealand, the major features of which were replicated in the Employment Strategy, bears only a passing resemblance to the institutional arrangements which prompted Niskanen’s original studies in the 1970s. But the consequential irony is that the implementation of the sorts of institutional buffers advocated by supply-side public choice has rendered the analysis and policy prescription contained in their orthodox economic model redundant.³³

6.4.1 reforming the supply-side, New Zealand-style

It has been suggested that ‘efficiency in government cannot be much improved without changing the basic institutions and processes which affect the ... supply of government-financed services’ (Niskanen, 1991, p. 20). Such ‘institutions and processes’ determine both the incentives and constraints specific to bureaucracies, such that maximising behaviour is facilitated by institutional topographies in which:

1. most bureaux are monopoly suppliers, and enjoy information asymmetries relative to political sponsors;
2. bureaux are funded on the basis of an agreed budget, rather than through the sale of output at a per unit price;

³³ The discussion is not an exhaustive review of the reforms, and does not seek to evaluate the merits and costs associated with those changes (for which see Boston, Martin *et al.*, 1996, and Schick, 1996). Its purpose is to detail those features of the current bureaucratic landscape which are intended to direct bureaucratic activity away from the sorts of instrumental ends presumed by public choice.

3. most bureaux sell their output to a monopoly purchaser, who is a passive participant in budget games (Niskanen, 1994, pp. 271-272).

6.4.1.1 stripping out information asymmetries and sponsor passivity

A decade and a half into an experience which has left few public service rocks unturned, little of Niskanen's diagnosis applies. Some of the most striking reforms have been implemented in response to the existence of information asymmetries. The standard public choice analysis is that traditional bureaucratic structures afford public servants considerable leverage over calculations of both the level of public demand for, and the costs associated with producing publicly-funded output. The asymmetrical advantages enjoyed by officials led Niskanen to cast political sponsors as relatively passive participants in budget negotiations, with few incentives to drive 'hard bargains', and even fewer to invest resources in closely monitoring bureaucratic performance (Niskanen, 1994, pp. 271-272).

The core proposition is that officials' ability to manipulate the flow of information regarding a department's productive activities stems from the institutional combination of bureaucratic functions. The risk of provider capture attendant upon these arrangements is highest in agencies in which bureaucrats exercise responsibility for 'policy advice concerning their sectoral responsibilities, for the implementation of policy decisions, and for ongoing operations within that framework' (Treasury, 1987, p. 75). At the beginning of the reform era the Treasury found it:

... hard to escape the conclusion that advice on [government intervention] from an agency which is involved in public provision is likely to be biased in favour of that existing provision. More generally, it would appear that an agency whose existence is inextricably linked to the continuation of existing policy is likely to be biased in favour of existing policy (1987, p. 75).

Consistent with that analysis, 'the separation, in different agencies, of responsibility for the provision of policy advice, regulatory and funding activities, and operational activity' (Treasury, 1987, p. 76) has since been pursued with great vigour in New Zealand.³⁴ While the institutional separation of functions has not been perfectly applied in every instance (Boston, Martin *et al.*, 1996), in the overwhelming majority of cases the objectives to which agencies work are now clearer than they might traditionally have been. The search for greater operational clarity is wholly consistent with the desire to reduce the capacity of senior bureaucrats to obfuscate the nature of departments' activities. The pursuit of that

³⁴ See Boston, Martin *et al.* (1996), Shaw (1999b), State Services Commission (1999c). The recent establishment of the Ministry of Social Development, described in section 10.5, suggests that this preference is changing.

end has been complemented by the introduction (through the *Public Finance Act* 1989) of an appropriations régime based on explicit performance benchmarks. The traditional concern with the annual cash cost of funding administration was believed to ‘encourage departments to compete for increases in their one year cash allocations’, such that it was in their interests to ‘overstate the benefits [of programme delivery]; [to] disregard the cost of funds raised either through taxation or borrowing; [and to] monitor inputs, not outputs’ (Treasury, 1987, p. 82). Those incentives were thoroughly revised through the establishment of financial management processes which link the appropriation of public resources to quantifiable and demonstrable standards of departmental performance. By so doing, it was intended that inefficient practices such as budget-maximising, year-end spending sprees, and a short-term focus in financial planning would be eliminated (Scott and Gorringer, 1989).

The changes effected by the *Public Finance Act* 1989 have been important for several reasons. First, they represent a significant response to standard public choice criticisms of the allocative inefficiencies and over-supply which are thought to be encouraged when bureaux are funded on the basis of an agreed budget, rather than on a price per unit basis. The provisions of the *Public Finance Act* do not disaggregate appropriations to the level of individual units of output (appropriations are at the level of output classes); the indivisible nature of many of the public or merit goods and services produced by departments is such that specificity of that nature would be impossible, if not undesirable.³⁵ Nonetheless, purchasing on the basis of output classes does enable ministers to more effectively manage fiscal risk. It also allows them to ‘unbundle’ the packages of output offered by departments, and (assuming nominal contestability of supply) to purchase certain output classes but not others. The arrangements remain some distance away from the public choice ideal of purchasing on a price per unit basis, but they have certainly increased ministers’ leverage in budget processes. Moreover, departments are no longer able to commence a fiscal cycle in control of a quantum of resource the end uses of which are opaque to external sponsors. Departments may seek supplementary appropriations with the full knowledge and support of their Vote minister(s), but it is difficult to sustain a case for additional budget increments which is not explicitly tied to the purchase preferences of the political executive. At least technically, it is no longer the case that ministers are unable ‘easily [to] pick and choose within the package [offered by departments], or [to] consider competing bids from alternative providers’ (Dunleavy, 1991, p. 157.).

³⁵ Brumby *et al.* (1996) have attempted to identify movements in unit costs in a range of departments (including Valuation New Zealand, the Immigration Service, and the former Income Support Service). Their findings suggest that average unit costs have fallen in the post-reform era, a tendency which they attribute largely to productivity increases.

Secondly, the revised appropriations régime has enabled the political executive to impart greater strategic direction to the collective activities of the public service. Theoretically, the intentional purchasing of clusters of goods and services from particular departments takes place within a whole-of-government context, in which respect it has become more difficult for individual lead bureaucrats to configure the nature and quantity of their department's output as a function of their personal preferences. The object, clearly, has been to ensure that the discretionary decisions taken by senior bureaucrats are exercised within fiscal and strategic policy parameters which are set by the government of the day. And although it lies beyond the scope of this discussion, it might be noted that the public financial management changes have been complemented by a greater willingness, since the early 1990s, to have recourse to strategic management systems at the whole-of-government level (see Boston and Pallot, 1997; Fancy and Matheson, 1995; Scott, 2001).³⁶ Furthermore, in recent times attempts have been made to integrate the strategic management régime with the budget cycle and the performance evaluation process for departments' chief executives, both of which enhance bureaucratic responsiveness to the collective interest (Boston, 1999, p. 3).

Thirdly, and most significantly in a public choice sense, the tighter interface between parliamentary appropriations and demonstrable departmental performance limits the scope for instrumental bureaucratic conduct which is incongruent with the objectives of the executive and legislative branches of government. In this respect, the reforms have been consistent with the observation that 'increases in the legislature's oversight activities can dramatically curb the ability of budget-maximising bureaucrats to secure increments' (Bendor and Moe, 1985, p. 772; cited in Dunleavy, 1991, p. 179). In conjunction with the introduction of both accrual accounting and a raft of stringent financial reporting requirements, the current public financial management model makes it difficult for bureaucrats to engage in hidden expenditure and delivery activities. It has also contributed to an increase in the amount, and quality, of publicly available information concerning the production activities of departments. The aggregate impact, as was intended, has been to substantially strip away information asymmetries, thereby boosting the capacity of the political executive (and the legislature to which it is responsible) to exert control over the expenditure and output behaviour of the bureaucracy. There is far less scope these days for officials to successfully exaggerate the level of public demand for departmental goods and services, and to understate the costs to government of producing output. As a result, ministers (and other stakeholders) are better able to assess the degree to which bureaucratic activity is aligned with their strategic policy interests.

³⁶ Neither should they be seen in isolation from the provisions of the *Fiscal Responsibility Act 1994*, although the latter is a demand-side initiative intended to constrain elected representatives, rather than one principally designed to limit opportunism amongst bureaucrats (see Scott, 1995).

For these reasons ministers can no longer be portrayed as the 'passive participants' in budget negotiations described in the orthodox public choice literature. Partly in response to the fuzziness of information, and driven by a concern to exercise greater leverage over the performance of individual bureaucrats, a category of administrative instruments now exists which allow political sponsors (both executive and parliamentary) to engage in budget discussions on an informed basis, and with considerable vigour. Purchase agreements, in particular, are an example of an innovation intended to align bureaucrats' actions with sponsors' interests; that is, to 'minimise the likelihood of violations resulting from opportunism on the part of the agent' (Boston, Martin *et al.*, 1996, p. 20). Purchase agreements, which have emerged out of the differentiation between the Crown's ownership and purchase interests in its departments, codify *ex ante* the outputs to be purchased from departments by Vote ministers. One of their chief purposes is to provide ministers with the information required to make expenditure decisions, to which end they contain data concerning the cost, quality, quantity and time of delivery by a department of the outputs specified therein (Treasury, 1996, p. 39).

Few would dispute that they are imperfect instruments, which, when imprecisely specified, can compromise both the Crown's ownership interest and the 'Executive's ability to exercise control over its agencies' (Macdonald, 1999, p. 67). In addition, a former Minister of State Services has pointed out (a) that changing levels of resource and/or public demand for output rarely result in the alteration of purchase agreements, and (b) that agreements are generally insufficiently specific to permit the withholding of resources from departments which fail to meet specified output targets (Upton, 1999, p. 12). However, the balance of evidence does suggest that the advent of the distinction between the ownership and purchase interests has assisted in aligning departmental bureaucratic production with the preferences of ministers. Schick, for instance, argues that spending ministers are now able to 'drive hard bargains, [and] to ensure that the government is getting value for money and that the services provided by the departments are those they contracted for' (Schick, 1996, p. 43).³⁷ Similarly, Scott *et al.* (1997, p. 371) report on empirical studies (including Brumby *et al.*, 1996) which indicate that the financial management reforms have made it considerably easier for governments to control expenditure. Thus, purchase agreements grant ministers greater leverage over bureaucrats in the budget game than Niskanen would concede, even in his revised model. Furthermore, in conjunction with the performance agreements signed by ministers and chief executives (with which they are cross-referenced)

³⁷ There are increasing concerns that the bargains ministers are driving are *too* hard. The risks attached to overly-vigorous purchasing have been expressed by Upton, who points out that 'a strong purchase interest also brings with it a short-term focus and a risk that our responsibilities for maintaining the ownership interest in core government are being crowded out' (1999, p. 12). See also Schick (1996).

purchase agreements constitute a clear statement of expected performance against which actual performance is regularly assessed.

6.4.1.2 designing monopoly supply out of the public service

Such has been the attention paid to clarifying the delivery obligations of departments, and to linking performance and resourcing, it is difficult any longer to accept that ‘the total activities and budgets of most bureaux are beyond comprehensive understanding’ (Niskanen, 1973, p. 25) to anyone other than officials themselves. Likewise, it is questionable whether or not departments continue to exercise an ‘overwhelming dominant monopoly power’ (Niskanen, 1971, p. 30) over the supply of publicly-funded output.

Niskanen’s model is heavily reliant upon the capacity of a bureau to monopolise the supply of output; in fact, that condition has been identified as the single most important prerequisite for successful budget-maximisation (Lynn, 1991, p. 62). It is certainly the case that in New Zealand some departments continue to enjoy monopoly supply status, particularly in areas in which there are substantial political risks associated with delivery failure. That point was made in chapter 3 in relation to the administration of transfer payments, which remains one key area of government activity in which there is ‘virtually no element of contestability’ (ODWG, 1997a, p. 8). But in a great many other operational domains, departments have long since lost their monopoly status. Some of the most obvious examples are scattered amongst those former trading departments who have been corporatised since the passage of the *State Owned Enterprises Act* 1986. In those instances government-imposed barriers to market entry by competitors have been removed, and the state’s own enterprises have had to function in competitive environments. Moreover, in the case of the twenty or so commercial assets which were first corporatised, and subsequently privatised, ownership has been rendered both contestable *and* transferable.

Even in the case of most non-commercial activities, while ownership remains non-transferable, the institutional separation of funder, purchaser and provider roles has been crucial to the establishment of quasi-competitive markets for the supply of publicly-funded goods and services (see Michaels, 1999). In health, welfare, housing and education, for instance, governments are now able to purchase output from a range of both public and non-public providers. Furthermore, the de-monopolisation of the vertical relationships between bureaux and political sponsors has been paralleled by greater horizontal contestability amongst departments. Departments are no longer compelled to source inputs from other public sector suppliers, and there is far greater scope for them to offer their goods and services to third-party purchasers (Gregory, 1987).

This discussion concerns provisions for sourcing material output from non-departmental suppliers, but the contemporary tendency for ministers to seek out alternative sources of policy advice is also worthy of note (McLeay, 1995). At the outset of the reform era, Treasury made much of the agency costs associated with the non-contestability of policy advice. It was argued, in particular, that a dependence for advice upon the public service left governments vulnerable to capture by advisors who would, given the imperatives of rational egoism, promote advice which was commensurate with their own self-interest. The parochial nature of such advice would, Treasury warned, obfuscate ministers' search for a policy mix which would most efficiently and effectively secure their objectives (particularly if those ends would be best served by non-public sector service provision) (Treasury, 1987, p. 75). Since that time, some argue that the creation of stand-alone policy organisations has removed barriers to independent policy advice by institutionally protecting against provider capture, and that the clarity of advice has been improved by the requirement to focus on both the nature of policy interventions (in the form of outputs) and their intended consequences (expressed as outcomes) (Scott *et al.*, 1997, p. 372).³⁸

It is unwise to blithely assume that the institutional emergence of competitive markets through the organisational division of functions, and/or the separation of purchase and provider roles, is a sufficient precondition for the creation of genuine contestability. In a discussion regarding the provision of core government services, which he describes only as 'the generally agreed upon functions of a nation state', a past Minister of State Services has warned against that tendency by pointing out that '[t]he simple reality is that Ministers do not stop purchasing from one department and actively look to purchase the same services from another' (Upton, 1999, p. 12).

But at the level of institutional design, the changes wrought since the late 1980s have left few areas in which the government's own departments any longer enjoy monopoly status. The presence of alternative suppliers to which governments can turn may well be acting as an external constraint on the ability of bureaux to secure budget increments in the absence of a robust case for public (and specifically departmental) provision. Evidence to that effect is suggested by the downward trend in spending on core departmental delivery operations reported in Table 6.5 above. Excluding the increase in the net worth of transfer payments, which accounts for 64% of the total increase in public expenditure between 1990 and 1999, at the end of the twentieth century government was spending vastly more on goods and services purchased from non-departmental providers than it was on output sourced from its own core agencies. That state of affairs, and its attendant ramifications (including a

³⁸ Others would add that those institutional changes have introduced a number of risks into the policy process, including higher transaction costs and inconsistency between advice and operations. See Boston, Martin *et al.* (1996) and Shaw (1999b).

decrease in the size of the public service workforce) is simply not consistent with the monopoly supply conditions enjoyed and exploited by Niskanen's arch-bureaux.

6.5 Conclusion

The New Zealand reforms have been cast as a drive to shape a public service which is held 'accountable [to political sponsors] through mechanisms fashioned by the self-interest assumptions of public choice theory' (Gregory, 1995, p. 175). The impact of the mechanisms to which Gregory alludes, some of them described in this chapter, has been such that in the contemporary New Zealand model it is less a matter of letting the managers manage and more a case of making them manage (Schick, 1996). That political and bureaucratic 'policy entrepreneurs' (Goldfinch, 2000) have erected a series of institutional safeguards against bureaucratic self-interest strongly suggests that they have concurred with Niskanen's assumption that bureaucrats are given to budget-maximisation. In aggregate, the various reforms based upon that assumption have made it considerably easier for ministers to inject rigour into the appropriations process, to impart a degree of strategic oversight to departmental production, and to hold bureaucrats to account for their management of public resources. Ministers are now better positioned to apprise themselves of goings-on within the bureaucracy, and as a consequence, the scope for bureaucrats to utilise skewed institutional arrangements to lever budget increases out of their political sponsors has been markedly reduced. The scope of reform has been such that departments in New Zealand are in no position (if indeed they ever were) to 'make all-or-nothing budget offers' (Dunleavy, 1991, p. 211) to their political sponsors.

Therein may lie the cause of the lack of fit between the predictions associated with the economic model and the empirical data presented above on both the budgetary and institutional consequences of the Employment Strategy, and the post-reform performance of the wider public service. This chapter set out to measure the predictive performance of the model against patterns in employment, remuneration and spending in the departments, and broader patterns in public spending. With limited exceptions, in predictive terms the model has performed poorly. Niskanen successfully anticipates the upward trend in the remuneration of chief executives, but cannot explain patterns such as the fall in government expenditure as a proportion of GDP, the dramatic reduction in the size of the public service workforce, and lower levels of spending on the delivery activities of departments.

Yet that may be because even if they had been and remain inherently inclined to do so, senior bureaucrats confront an institutional environment which conscientiously guards against the implementation of maximising strategies. Further, if it is the case that the incentive structures and institutional arrangements now in place effectively protect against

bureaucratic instrumentality in general, and budget-maximisation in particular, that explanation need not be a direct function of the intrinsic features of Niskanen's model. That the data surveyed here reveal an absence of the behaviour predicted by public choice suggests that the blemishes identified in chapter 5 restrict the model's utility. On the other hand, those data might also vindicate Boyne's observation that '[p]ublic choice is perhaps uniquely blessed (or cursed) by policy developments that its creators may have desired, but could not have foreseen' (1998, p. 474). To paraphrase Niskanen, the beginning of contemporary wisdom may be to recognise that the assumptions informing public choice have driven a process of institutional reform which has successfully inoculated against self-serving behaviour in the bureaucracy. A case can be made that the absence of bureaucratic over-supply and budget-maximisation in New Zealand is as much (if not more) a function of intentional institutional reform as it is a reflection on the predictive shortcomings of the economic model. Contemporary developments in New Zealand may, in fact, tell us relatively little about the intrinsic merits or otherwise of Niskanen's model, but they do reveal a great deal about the effective influence which that model has had on the reformation of the public service.

Dunleavy (1985) has noted that Niskanen's model is consistent with the structure of line bureaucracies. The public service topography which now applies in New Zealand is, however, some distance from that traditional framework. If the incentives and constraints specific to the new institutional architecture make it increasingly difficult to prosecute bureaucratic instrumentality of the budget-maximising variety, it is time to acknowledge that the orthodox public choice account of bureaucracy is obsolete.

However, that leaves a theoretical and methodological void in the study of bureaucracy generally, and in the search for the drivers of the Employment Strategy's structural reforms in particular, which demands filling. The need is especially pressing because, although current monitoring and reporting requirements have rendered budget-maximisation on any meaningful scale improbable, the reformist premium on decentralisation has bequeathed to chief executives considerable discretionary powers over the deployment of resources *within* their own agencies. Chief executives have a statutory duty to act independently: they take all decisions regarding the appointment, promotion, demotion, transfer and/or dismissal of departmental employees. And while they operate within funding parameters negotiated with Vote ministers, chief executives have sole authority over the routine management of their agencies and, in particular, over the mix of inputs needed to generate the outputs they agree to produce. Paradoxically, the reforms have greatly *increased* the potential capacity for self-interested conduct on the part of chief executives, albeit within a bounded fiscal and political environment.

It is an irony that New Zealand's refurbishment of its public service was predicated upon an assessment of the bureaucratic 'problem' which is fundamentally flawed. But the questions with which Niskanen originally grappled - what motivates bureaucrats?; what determines the level of output which bureaux supply?; what are the institutional consequences of bureaucrats' decisions? - are as relevant now as they were thirty years ago. What is required, however, is a fresh analysis of bureaucracy, one incorporating a refurbished bureaucratic maximand and cognisant of the reformed environment, and therefore capable of providing a more robust account of bureaucratic reforms such as those triggered by the Employment Strategy. The purpose of the following chapter is to examine and test one such alternative: the bureau-shaping model proposed by Patrick Dunleavy.

Part 3

Chapter 7 - Shaping the bureau

7.1 Introduction

The previous chapter established that the orthodox economic model is unable to account for the structural changes triggered by the Employment Strategy, or to accommodate the fact that in the reformed New Zealand public service there is little scope for opportunistic activity of the sort described in mainstream public choice. Central features of the new administrative arrangements, including funding departments on the basis of output classes and the use of purchase agreements, circumscribe the extent to which officials can substitute their own preferences for those of their political sponsors. Stringent reporting requirements make the process and consequences of public servants' allocative decisions more transparent, and tightly specified accountability documentation underpins the evaluation of bureaucratic performance. Furthermore, even if they were overwhelmingly motivated to do so, continuous reductions in expenditure on public service delivery activities would significantly constrain the sector-wide prosecution of budget-maximising strategies.

In effect, these institutional developments demand a new, and qualitatively different orientation to the issue of what, if anything, bureaucrats seek to maximise. One such approach is to be found in Patrick Dunleavy's bureau-shaping model (Dunleavy 1985; 1986; 1991). Dunleavy has added a great deal to the rational choice literature regarding the motivations of bureaucrats, and while his model shares the fundamental presumption of bureaucratic rationality, it represents a powerful challenge to the orthodox account of bureaucracy. The conclusions Dunleavy reaches regarding the nature of the bureaucratic maximand and the net effect of collective maximising strategies are markedly different to those generated by standard public choice accounts. His most significant theoretical innovation, which is that senior officials seek to influence the institutional boundaries of their agencies, rather than to maximise their budgets, represents a quantum advance on the orthodox acceptance of budget-maximising behaviour. For Dunleavy, the currency in which bureaucrats trade is institutional leverage, rather than institutional size. *Prima facie*, his thesis offers a far more compelling explanation of the machinery of government changes which rolled out of the Employment Strategy than does the classical notion of budget-maximisation.

Part 3 of the thesis (chapters 7 to 9) explores the utility of Dunleavy's framework in the context of the Employment Strategy. This chapter outlines the bureau-shaping model, and situates it within recent theoretical developments in rational choice; chapters 8 and 9 apply the model to the Employment Strategy, and assess its merits and shortcomings. The early stages of this discussion comprise a commentary on the new institutionalist tradition, which is home to some of the most interesting contemporary innovations in rational choice. Thereafter, it is given over to a detailed treatment of the bureau-shaping model, encompassing Dunleavy's position on the bureaucratic maximand, the nature of departments' budgets, and the collective strategies available to bureaucrats who are motivated to shape their institutional environs.

7.2 New institutionalism

Institutions have been defined as 'the formal rules, compliance procedures, and customary practices that structure the relationships between individuals' (Hall, 1992, p. 96).¹ At the root of the bureau-shaping thesis is an acceptance that bureaucratic behaviour is mediated by such institutional arrangements, and that institutional configurations both influence officials' utility structures, and are amenable to intentional and purposive human agency. In this respect Dunleavy's contribution sits firmly within a theoretical tradition which Laffin (1997), Parsons (1995) and others (Lowndes, 1996; Hall and Taylor, 1996; Immergut, 1998; Ostrom, 1995; Shepsle, 1989; Steinmo, Thelen and Longstreth, 1992) have called the 'new institutionalism'. The term is frequently attributed to March and Olsen (1984), who, reacting against the tendency of political theorists of the time to regard 'political phenomena as the aggregate consequences of individual behaviour' (March and Olsen, 1984, p. 735), called for the rediscovery of the relevance of political institutions. The subsequent emergence of new institutionalism (or, more accurately, the new institutionalisms) reflects the rediscovery within the disciplines of political science, economics and sociology of the importance of institutional arrangements to the outcomes of political activity. The core proposition extended by its proponents is that the structural and procedural features of institutions are crucial to the processes and results of collective decision-making (Lane, 1993; Shepsle, 1989). Bluntly, new institutionalists attempt to 'explain institutions rather than simply to assume their existence' (Nee, 1998, p. 1).

¹ See Crawford and Ostrom (1995) for an extensive discussion on the grammar and syntax of institutions.

'New' institutionalism is most often distinguished from 'old' institutionalism by its concern with moving beyond an earlier, largely descriptive tradition which 'focus[ed] principally on cataloguing the minutiae of political institutions' (Shepsle, 1989, p. 133). It also represents a reaction to the behavioural revolution within political science, which swept aside the traditional study of institutions and replaced it with an exclusive focus on the behaviour of individual political actors (Crawford and Ostrom, 1995; March and Olsen, 1984). Common to each of the strands which collectively comprise the renaissance in the study of institutions is a criticism of the sorts of 'atomistic accounts of social processes' (Lowndes, 1996, p. 183) which, in the context of the study of bureaucracy, rely largely upon the self-interested motives of individual public servants. The hallmark of new institutionalism is a reflexive and probing treatment of the intermediate level 'rules of the game' (Lowndes, 1996, p. 183) which are a function of institutional arrangements, and which shape the motives of and interactions between political actors. Shepsle has captured the essence of the approach as well as anyone in observing that the new institutionalism 'seeks to explain the characteristics of social outcomes on the basis not only of agent preferences and optimising behaviour, but also on the basis of institutional features' (Shepsle, 1989, p. 135).

The new institutionalism comprises different schools of thought which have 'incubated in relative isolation from each other' (Hall and Taylor, 1996, p. 957), and the literature cannot be approached as an homogenous corpus. As a consequence of the theoretical distance which exists between its constituent strands, commentators have developed different ways of classifying new institutionalist accounts. Parsons (1995, p. 223) identifies three approaches to the study of institutions: political, sociological and economic institutionalism. Laffin (1997, pp. 52-56), on the other hand, concentrates on just two strands of new institutionalism, historical and sociological, but also accepts that the term describes 'the new wave of rational choice theories which emphasise the role of institutions in structuring choice' (1997, p. 52). Hall and Taylor (1996) broadly concur with Laffin's typology, but explicitly add the rational choice approach to the new institutionalist stable. Steinmo, Thelen and Longstreth (1992) settle on a distinction between historical and rational choice approaches to new institutionalism, while Lane (1993) finds evidence of a new institutionalism in organisation theory and in institutional economics. Finally, in an approach which is partially adopted in this chapter, Lowndes (1996) prefers to discuss new institutionalist perspectives on the basis of their disciplinary roots in, respectively, political science, economics and organisation theory.

7.2.1 sociological institutionalism

Lowndes distinguishes between two new institutionalist streams within political science: sociological and public choice (Lowndes, 1996). The work of March and Olsen (1984; 1989) is held up as an exemplar of the first, the crucial insight of which is that 'human activity and thought is fundamentally bound by the institutions within which they are located' (Parsons, 1995, p. 224). Sociological institutionalism constitutes a rejoinder to orthodox public choice inasmuch as it stresses the primacy of institutions in framing individuals' understandings of policy issues, their access to information, and their appreciation of and ability to engage in political strategies. It also contests the assumption that sovereign, rational individuals are intrinsically motivated to pursue utility-maximising strategies independent and irrespective of the institutionally-specific contexts within which they act. Sociological institutionalism does not negate the capacity for individual human agency, much less does it disregard the incidence of self-interested conduct, but it does emphasise the contribution made by institutional variables to the framing of the 'rules of the game'. Indeed, whereas rational choice institutionalists accept that actors' preferences are both exogenous to institutions and stable over time and context, their sociological counterparts argue vigorously that institutions directly 'affect the underlying preferences or identities of actors' (Hall and Taylor, 1996, p. 951). For those who subscribe to sociological institutionalism, institutions take precedence over individuals' interests as the drivers of human conduct (Lane, 1993, p. 189).

7.2.2 rational choice institutionalism

A different orientation to the nature of institutions, and to the thorny question of the degree to which individual actors are capable of moulding institutional parameters, is found within certain sections of the rational choice literature. The traditional position, reflecting the neo-classical conviction that 'institutional context [is] fixed, given and exogenous' (Shepsle, 1989, p. 131), has long been that institutions are of interest only to the extent that they provide the fora within which opportunistic individuals pursue utility-maximising strategies (see chapters 4 and 5). That logic, which continues to hold considerable sway within public choice, underlies the belief that institutions are no more than the accretion of all individual choices based on instrumental preferences. In this sense institutional design is considered an adjunct of, or perhaps more accurately, a function of rational egoism. Institutions such as legislatures and public bureaux are treated as sets of structures which are exogenous to individuals, and of minimal consequence as determinants of choice and behaviour. Indeed, they are considered by formal theorists to be a complete distraction, encouraging empirical results which are 'hopelessly time- and location-bound, [and]

hopelessly tied to specific details' (Shepsle, 1989, p. 135). Rather, it is the welfare goals which maximising individuals pursue, and the strategies they utilise in so doing, which constitute the proper concern of orthodox rational choice scholars.

The belief that institutions are of secondary importance as determinants of human conduct springs from the assumption that people's preference functions are decoupled from, rather than partially shaped by, particular institutional contexts. Public choice has traditionally followed neo-classical economics in accepting individuals' preferences as given. Within the orthodox literature few questions are asked regarding the origins of and influences on those preferences. On the whole, self-interest is simply assumed to be a static characteristic of the human condition. Niskanen's economic model of bureaucracy provides a case in point. It is not entirely serendipitous that the budget-maximising bureaucrat occupies a privileged status in the model, for in Niskanen's work aggregate bureaucratic output is a function of the maximising conduct of all opportunistic individual bureaucrats. The assumption that the desire to maximise is an inevitable feature of the make-up of all officials goes unquestioned. Similarly, the characteristics of the institutional contexts within which that activity is played out are accepted as given. Niskanen shows little interest in distinguishing between different historical and jurisdictional forms of bureaucracy, confining his focus to the output effects of individuals' behaviour. Indeed, the unwillingness of public choice to take into consideration different departmental forms, cross-national variations in bureaucratic architecture, and the manner in which institutions influence preference formation is a source of constant criticism (see Blais and Dion, 1991c; Dunleavy, 1991; Self, 1993).

However, some have detected a new breed of rational choice scholar for whom 'the determinants of institutions are susceptible to analysis by the tools of economic theory' (Shepsle, 1989, p. 131), and whose orientation to institutional issues subsequently departs in important respects from public choice orthodoxy. The shearing off from mainstream public choice of theorists such as Ostrom (1986), Riker (1980) and Shepsle (1979; 1989) has been explained by one of their number as a response to a disenchantment with the 'overly atomistic conception[s] of political life' which characterised earlier public choice (Shepsle, 1989, p. 134). In Shepsle's view, the insistence on using maximising models to account for political and bureaucratic behaviour led to (and presumably still does) explanations which were 'unnecessarily impoverished' by the willingness to sacrifice contextual variables to an exclusive concern with individuals' privately held beliefs and interests (1989, p. 134). The response of the new rational choice institutionalists to this selectiveness has been to turn the conventional approach on its head by exploring the fashion in which institutions frame

the gamut of possible utility-maximising pathways available to individuals within particular institutional environments.

To the extent that it can be attributed to a single phenomenon, this refurbishment of rational choice was triggered by empirical observations that voting patterns in the United States' Congress are generally characterised by the persistence of stable majorities, rather than by the disequilibrium and flux which rational choice would anticipate given the different preference orderings of individual legislators (Hall and Taylor, 1996, p. 942). For an explanation of that phenomenon, Riker (1980), McCelvey (1976) and others turned to institutional arrangements in the legislature, and found that features such as legislative procedures, and the composition and powers of committees, significantly framed the access enjoyed by external interests to decision-makers, the information available to legislators, and the range of choices available to policy-makers.

Subsequent analyses of the institutional etymology of what Hall and Taylor (1996, p. 945) describe as 'choice-agendas' led the new generation of scholars to explore the ways in which institutional architecture shapes both the incentive structures within institutions, and the 'currencies' with which self-interest is transacted. As a consequence, and quite unlike many of their orthodox predecessors, new rational choice institutionalists such as Dunleavy pay a great deal of attention to the interface between institutional design and strategic utility-maximisation, and entertain the possibility of a rich menu of goals and strategies (rather than the single, unvarying set which characterises orthodox public choice) the precise configuration of which reflects specific institutional contexts. For this reason, Lowndes (1996, p. 153) identifies the manner in which institutional considerations impinge upon and influence individual actors' utilities, and their preferred solutions to collective action problems, as the core research concern of this emerging variant of rational choice.

The extent of the cleavage between the new rational choice approach to institutions and that which it has in part superseded should not, however, be overstated. The principal point of congruence between the two is the continued acceptance within the more recent school of the rational egoist postulate, and the concern with instrumentality and intentionality which attaches to that. Self-interest has safely survived the generational transition. Significantly, while it proposes that self-interest is context-specific, new rational choice institutionalists continue to accept that 'the relevant actors have a fixed set of preferences or tastes, ... behave entirely instrumentally so as to maximise the attainment of these preferences, and do so in a highly strategic manner that presumes extensive calculation'

(Hall and Taylor, 1996, p. 945). The twin assumptions that (a) individuals create institutions because they perform functions which are of value to their creators, and (b) that particular institutional forms are preferred to others on the basis of their capacity to deliver greater utilities to actors, are therefore common to both strands (Hall and Taylor, 1996). For that reason, both the etymology of institutional formation and questions of institutional robustness, or persistence, remain under-theorised in both approaches (Shepsle, 1989).

That said, the new orientation entertains a degree of dynamism in the interaction between institutions and actors which is absent from standard public choice. The new rational choice theorist is especially interested in the capacity which institutional arrangements (including rules and regulations, procedures, sanctions and incentive structures) possess to reduce uncertainty amongst individuals' probable behaviour (an interest they share with new institutional economists), such that the strategic calculus upon which actors predicate their own maximising activity is more likely to promote better aggregate outcomes. The fundamental notion of rational egoism continues to apply, certainly, but rational choice institutionalism allows for a wider range of personal utilities, and permits a greater number of site-specific maximising strategies than does earlier public choice. In effect, rationality has become context-bound (Nee, 1998). To the fixed preferences of actors, revisionist rational choice has added institutional structure and procedure: the interaction between these three variables is central to the achievement of outcomes (Shepsle, 1989).

7.3 The bureau-shaping model

Patrick Dunleavy is a prominent member of this new generation of rational choice theorists. Dunleavy accepts the classical proposition of bureaucratic instrumentality, but insists on the fundamental importance of institutional environments to the motives and behaviour of bureaucrats. He has responded to the limitations of the maximand proposed by Niskanen by designing a model of bureaucracy which is, in his view, based upon a more 'plausible set of official objectives', and capable of 'explain[ing] empirical phenomena with more precision [and] over a wider range of situations than the budget-maximisation hypothesis' (Dunleavy, 1985, p. 315).

Dunleavy has effectively set himself the task of articulating a new bureaucratic maximand. The traditional argument is, of course, that because of the linkages between budgets, pay, promotions and prestige, departmental budgets are what bureaucrats seek to maximise.

Dunleavy does not wholly reject that proposition, and accepts that, in certain circumstances, some bureaucrats will engage in budget-maximisation (albeit of parts of, rather than a total budget), or, more accurately, in budget-satisficing behaviour (Dunleavy, 1991, p. 202). However, in his view, even in such cases senior (or 'policy-level') officials stand to gain very little by aggressively pursuing budget-maximising strategies beyond an 'internal optimum [budget] level' (Dunleavy, 1991, p. 174). Dunleavy employs standard rationality assumptions to demonstrate that at the point at which budget-maximisation becomes a frustrating task 'collective strategies of reshaping their bureaus into different agency types can best advance senior officials' interests' (1991, p. 174). Having decoupled bureaucrats' utilities from the total size of departments' budgets, Dunleavy's suggestion is that instrumental officials are much more inclined to try to shape an agency's institutional boundaries than they are to seek indiscriminate budget increments. In particular, for reasons teased out in detail below, bureaucrats seek to 'remodel their agencies as small, élite, staff organisations devoid of direct line responsibilities' (Dunleavy, 1991, p. 8).

Dunleavy's model has generated a great deal of interest (see Dowding, 1993; Hill, 1997; James, 1995; Marsh *et al.*, 2000; Parsons, 1995; Smith, 1998). At its core is the assumption that rational bureaucratic actors are not exclusively motivated to pursue pecuniary ends.² Instead, beyond a certain remunerative and budgetary point, they will seek out utilities which are largely task-related, and thus a function of institutional design rather than budget size. The characteristics of agencies' budgets are certainly key considerations in the context of bureau-shaping strategies, but budgets represent means to a range of ends which differ in important respects to those specified in the orthodox economic model. Niskanen treats departments' budgets as the core currency of bureaucratic self-interest; for Dunleavy, the relevant currency is the ability to exercise leverage over institutional parameters.

² Dunleavy also assumes that:

- political sponsors depend in the main upon bureaux for information regarding operating and production costs;
- sponsors and departments negotiate an annual budget for a quantum of departmental output;
- bureaucrats are essentially instrumental, and when making decisions tend to seek to maximise relatively hard-edged preferences;
- a department's aggregate policy decisions are a function of decisions taken by individual officials, although the end point may not be consistent with the personal preferences of any single official;
- officials' influence on policy-making is a function of their position in an organisation's hierarchy, with those officials nearer the top exerting relatively more influence over outcomes than junior staff (Dunleavy, 1985, p. 300).

The empirical utility of Dunleavy's new rational choice account of bureaucratic agency is dependent upon its capacity to address the deficiencies in the model which it seeks to displace. In particular, there is an onus upon Dunleavy to:

1. deconstruct the logic of Niskanen's bureaucratic maximand;
2. theorise the links between institutional contexts and (a) the preference structures that attach to, and (b) the maximising strategies used by bureaucrats in those environments.

If Dunleavy is to assert that bureaucratic satisfaction flows largely from agencies' institutional configurations rather than from the size of their budgets, he must first locate sources of bureaucratic utility other than those which are a function of departmental appropriations, and then establish a connection between the architecture of bureaucracy and those utilities. Such an exercise has no place in standard rational choice. The orthodox assumption that public servants are uniformly drawn to welfare gains which are a function of budget size decouples bureaucratic self-interest, and the stratagems employed in its pursuit, from the organisational environments in which that self-interest is manifest. That decontextualisation precludes a causal relationship between institutional particulars and intentional maximising agency. But for Dunleavy, there is a pressing need to account for the fashion in which institutional contours determine bureaucrats' work functions, and thereby generate agency-specific utility structures and maximising strategies.

7.3.1 reconstructing the bureaucrat's maximand

Dunleavy's challenge to budget-maximisation rests upon several theoretical advances on traditional economic models of bureaucracy. The first is a typology which disaggregates departmental budgets, and identifies four constituent parts of an overall appropriation. The framework is a response to the tendency of the seminal public choice works and their derivatives to treat budgets as undifferentiated, aggregate quantum of public resource, the size and end-uses of which are determined by the opportunistic whims of officials. Some revised public choice accounts distinguish between discretionary and overall bureau budgets (see Migué and Bélanger, 1974), but in the main the focus is on the size of a total budget, rather than on the internal composition of that allocation. Dunleavy, however (1991, pp. 181-183), distinguishes between four components of an organisation's budget:

1. a bureau's *core budget* consists of expenditure dedicated to the agency's own internal administrative and operating costs. The core budget is dominated by wage and salary costs, but also incorporates rentals and other operational overheads such as the purchase of computer software and hardware, and the provision of in-service

training. The core budget does not include resources which exit an agency in the form of transfer payments or contracts with other provider organisations.

2. a *bureau budget* comprises core budget expenditure plus all resources disbursed to the private sector, including contracts with external private sector organisations, debt servicing costs, and the distribution of transfer payments to individuals or firms. The bureau budget does not incorporate resources passed on to any other public sector bodies.
3. an agency's *programme budget* includes all money over which it exercises control, and for which it is responsible to a political sponsor. In addition to the bureau budget it incorporates revenue which passes out of the bureau to other public sector agencies. In the New Zealand context, the programme budget of a purchase agency would thus include its own bureau budget plus resources with which are purchased goods and services provided by other public sector providers.
4. a *super-programme budget* includes an agency's own programme budget plus any other spending by other bureaux from their own resources, but over which the principal bureau exercises either some policy responsibility or planning control, or for which it can claim political credit. The construct is useful in constitutional contexts in which central government agencies have responsibilities for channelling funding to agencies which operate at a sub-national government level. Given the fiscal independence enjoyed by local government in New Zealand, however, at least as compared with the equivalent tier of sub-national administration in the United Kingdom, the super programme budget category possesses limited domestic utility.³

Dunleavy accepts the incidence of budget-maximising conduct, but his typological innovation does allow him to propose that indiscriminate budget-maximising behaviour is not *ipso facto* consistent with the interests of all senior officials (Dunleavy, 1991, pp. 174-175). Because the 'relative size of core, bureau and programme budget levels fluctuate systematically across agencies' (Dunleavy, 1991, p. 183), budget-maximisation tends instead to be directed at particular components of a total budget, rather than at global increments.

³ More recently Dunleavy has commented on 'the erosion of multi-issue local public administration (municipalities and district health authorities) by micro-local agencies' (1994, p. 37).

7.3.1.1 heterogenous maximising incentives within agencies

Dunleavy's concern with institutional heterogeneity lies behind his conviction that a bureaucrat's rank, and the functional nature of the institution in which she or he works, will have a significant bearing on an official's choice of maximising strategy. In particular, he is at pains to point out that 'differently situated officials [will] choose between bureau-shaping or budget-maximising strategies' (Dunleavy, 1991, p. 200).

By discarding the orthodox one-size-fits-all approach, Dunleavy accommodates the existence of variations in maximising conduct both within particular departments, and across the machinery of government. The assumption that the interests of all bureaucrats are served by overall budget increases is displaced in the bureau-shaping model by an acknowledgment that expansions (or contractions) in one or other of the components of a bureau's aggregate budget are likely to produce variable impacts upon the personal utilities of its officials (Dunleavy, 1985, p. 307).

That phenomenon derives from the collective action problems which beset bureaux (described in section 5.3.3.1), and leads Dunleavy to reject the assumption that all public servants will freely subscribe to an agency-wide budget-maximising strategy. To briefly rehearse that analysis: Dunleavy argues that the distribution of the variables which influence an official's commitment to a budget-maximising strategy (the nature of welfare utilities, influence probabilities, advocacy costs, and access to alternative maximising strategies) is rank-specific. Consequently, the incentives for bureaucrats to support budget-maximising strategies are also distributed unequally, and vary according to individuals' assessments of the personal benefits (net of costs) likely to accrue to them in the event of increases in one or other of the portions of the total budget.

Within a single agency, therefore, there will be disparate patterns of support for increases in different elements of a total budget, and these constituencies will be rank-determined. For instance, it is entirely rational for middle- and low-ranking officials to endorse increases in a department's core budget, because the utilities which are of most salience to that group (including vertical promotions and improved career prospects) are most closely associated with that portion of an overall budget (Dunleavy, 1991, p. 192). On the other hand, senior bureaucrats in large departments are likely to derive reduced individual pecuniary benefits from expansions in a core budget. For these policy-level staff, expansions in bureau budgets are likely to deliver the greatest pay-offs. Such increments may generate increased agency leverage and status, extended patronage powers, and improved relations with external

stakeholders. But the relatively intangible nature of those welfare gains is such that they are less likely to be of consequence for junior officials, who therefore have little incentive to support strategies designed to promote increases in those components of a total budget (Dunleavy, 1991, p. 192).

Assessed in this light, the assumption that each official within a given agency is equally motivated to pursue aggregate budget increases seems unduly heroic; Dunleavy's disaggregation of an overall budget, and the heterogenous distribution of intra-agency incentives which emerges, suggests a more subtle reality. That insight is especially apposite with regard to public organisations in which functionally autonomous units perform different tasks within the parameters of a single parent department. In such contexts, a heterogenous profile of maximising incentives is likely to be institutionalised. For instance, few departments in the New Zealand public service still combine both policy and operational functions under a single organisational umbrella. However, prior to its dis-establishment as a result of the Employment Strategy, the DSW did broadly conform to the sectoral model. Dunleavy's analysis would anticipate that, given the role-dependency of maximising incentives, the distribution of incentives within the DSW would have varied across its constituent business units. Thus, the budget-maximising incentives for staff within the delivery wing of the department, the Children, Young Persons and their Families Agency, would have differed to those which applied within the Social Policy Agency; while increases in the department's core budget would have benefited the former (assuming that service delivery was preponderantly undertaken in-house), growth in the bureau budget and/or programme budget would have been of greater salience to the latter. Similarly, while the purchase by Community Funding Agency officials of services provided by non-public sector organisations would have logically compelled them to pursue increases in DSW's bureau budget, growth in the core budget would have delivered greater utilities to the large numbers of bureaucrats providing benefit administration services within the Income Support Service.

7.3.1.2 variations in incentives across bureaux

The preceding paragraph suggests that the incentives to participate in budget-maximising activities will also be unequally distributed across an institutionally diverse public service. *Prima facie*, that proposition appears unproblematic, but in the context of rational choice, which has historically assumed that all bureaux conform with the paradigm of the classical line bureaucracy (Dunleavy, 1991, p. 181), it is highly innovative. Specifically, patterns of maximising behaviour will tend to vary according to the core:bureau:programme budget

ratio which applies within different organisations. That is, they will reflect the particular mix of tasks undertaken within different bureaux. The internal service delivery capacity of line bureaucracies is such that the core budgets of those agencies constitute a significant proportion of their total bureau budgets and programme budgets (as an in-house capacity tends to be labour intensive).⁴ An organisation the principal function of which is to purchase services on behalf of government, on other hand, will have much a smaller core budget relative to its bureau and programme budget, as a relatively large proportion of the latter will finally be implemented by external organisations. Similarly, because the internal administration costs incurred in a transfer agency are modest in relation to the quantum of public subsidy paid out to clients, the bureau budget of a department which administers income support is likely to be larger than its core budget, and will comprise a significant proportion of its overall programme budget.

On that basis, and contingent upon the rank-specific preferences of individual bureaucrats, one might anticipate that the incentives to secure core budget increases would be diluted in, say, a purchase agency, in which that particular budgetary sub-set comprises a small share of the total programme budget. Instead, given the responsibilities of such agencies for administering the inter-organisational transfer of funds, budget-maximising activity would sensibly be directed at seeking increments in either the bureau budget (if the bulk of its purchases were from private sector providers), or the programme budget (if other public sector agencies are contracted to undertake delivery functions). Conversely, in a delivery department which directly provides most of its output, the incentive to maximise a core budget will be far stronger than it would be in a department which contracts a significant portion of its service provision responsibilities out to external providers.

Dunleavy's proposition that incentives attach to particular components of an overall budget (which in turn follow function) is especially useful in the New Zealand case, where the public service encompasses institutions with a wide range of functional responsibilities. Some agencies focus principally on the purchase of publicly-funded goods and services; if Dunleavy is correct, the budget-maximising incentives in them would be aimed at increasing either the bureau budget or programme budget. And while there are now fewer delivery

⁴ For Dunleavy, as in the seminal public choice literature, a 'line' bureaucracy is synonymous with a delivery agency which directly produces and delivers publicly-funded goods and services. In such agencies there exists a line of responsibility extending from the top official to those at the bottom of the hierarchy (Dunleavy, 1985, p. 326). Drawing on British data Dunleavy notes that delivery agencies have staffing complements which tend to be twice as large as those of other types of bureaux (Dunleavy, 1991, p. 190).

departments than has historically been the case, a considerable amount of operational activity still occurs within the public service. That the core budgets of these organisations comprise a large proportion of their bureau and programme budgets perhaps encourages the maximisation of the former. Similarly, in agencies which are principally concerned with the provision of policy advice, depending upon the particular balance between internal capacity and the sourcing of output from external policy contractors, one would also predict a tendency to seek marginal increments in core budgets.

None of this subtlety is captured by the orthodox assertion of a universal maximand, which disregards the vertical distribution of incentives within agencies, and is typically indifferent to the relations which bureaux have with other departments (and therefore blind to the nature of the public service-wide profile of incentives and interests). Dunleavy's approach, on the other hand, indicates that both inter- and intra-organisational maximising incentives vary considerably, depending in large part on the specific functions performed by bureaux. On the basis of that logic:

1. it is incorrect to argue that total budget increases are in all bureaucrats' interests;
2. it cannot be assumed that all officials in a department will subscribe to a collective strategy aimed at maximising a total budget;
3. it is no longer tenable to contend that the incentives for budget-maximisation apply equally across all public agencies.

In short, in contemporary contexts in which a wide variety of institutional forms and functions are scattered across the machinery of government, the traditional conception of a rational bureaucrat engaged in open-ended budget-maximisation is an anachronism.

7.3.2 a different set of individual motivations

The analysis which rolls out of Dunleavy's typology constitutes a compelling rejoinder to traditional public choice accounts of budget-maximising behaviour. Dunleavy's case against the argument that bureaucrats' welfare is solely a function of an overall budget is especially important, for it suggests that the utilities prized by public servants are not ineluctably determined by parliamentary appropriations. But that insight also begs an obvious question: if not a budget, then what do officials seek to influence in order to maximise their utility?

Because a precise sense of the *nature* of bureaucrats' utilities necessarily precedes a search for the means through which those gains are *obtained*, Dunleavy thoroughly revises the schedule of personal benefits which officials are presumed to desire. The crucial point here

is his conviction that bureaucrats' preferences are not arrived at exogenously, but are instead 'endogenously determined within the budget-setting and bureau-shaping processes which underlie agencies' activity' (Dunleavy, 1991, p. 254). This fundamental departure from orthodox public choice leads him to conclude that senior officials' preferences are work-related, rather than purely pecuniary; heterogenous, rather than homogenous; and particular, rather than generic. Dunleavy's officials are not exclusively driven by pecuniary or near-pecuniary interests, and they pursue a range of utilities (and a variety of strategies) which are alien to those sought by Niskanen's budget-maximisers. They are primarily motivated by the 'non-pecuniary elements in their utilities, especially aspects of their welfare which are related to the *intrinsic characteristics of the work involved*' (Dunleavy, 1985, p. 321; emphasis added). The following table sets out a range of such work-related features, grouped according to the value (positive or negative) likely to be ascribed to each by bureaucrats acting in their own interest.⁵

Table 7.1 - Positive and negative values ascribable to bureaucrats

| Positively valued | Negatively valued |
|--|---|
| 'Staff' functions <ul style="list-style-type: none"> • innovative work • developmental rhythm • longer time horizons • high level of managerial discretion • low level of public visibility | 'Line' functions <ul style="list-style-type: none"> • routine work • repetitive rhythm • short time horizons • low level of managerial discretion • high grass-roots public visibility |
| Collegial atmosphere <ul style="list-style-type: none"> • small work units • restricted hierarchy • predominance of élite personnel • congenial personal relations | Corporate atmosphere <ul style="list-style-type: none"> • large work units • extended hierarchy • predominance of non-élite staff • conflictual personal relations |
| Central location <ul style="list-style-type: none"> • proximate to centre of political power • metropolitan/capital city location • conferring high status contacts | Peripheral location <ul style="list-style-type: none"> • remote from political contacts • provincial location • remote from high status contacts |

(adapted from Dunleavy, 1991, p. 202)

⁵ While Dunleavy has been criticised for revising his schedule of bureaucrats' utilities on the basis of untested assumptions (Marsh *et al.*, 2000), he has received limited empirical support in the New Zealand context from Norman and McMillan (1997, p. 3), who found that public servants are more motivated by job-specific variables, such as opportunities to be 'creative and innovative', than they are by material rewards.

Dunleavy does not suggest that public servants are entirely selfless, and accepts that 'there is always a pecuniary parameter in bureaucrats' concerns - a level of income and of near-money benefits which they will seek to achieve as a condition of the pursuit of other utilities' (Dunleavy, 1991, p. 201). It is reasonable to assume that, at least amongst junior officials, budget-maximisation is an important source of pecuniary utilities. However, it is the 'other utilities' referred to by Dunleavy which represent the signal contribution of the bureau-shaping model, especially in the context of accounting for maximising conduct amongst senior bureaucrats. Remuneration is not the only concern of policy-level officials; there is also considerable personal satisfaction to be derived from the tasks they undertake, and from the proficiency with which those activities are prosecuted. These intrinsically work-related characteristics become increasingly important sources of utility the further up an agency's hierarchy an individual bureaucrat progresses, for with successive promotions or salary increments, the pecuniary elements of a given welfare gain diminish in relation to the non-pecuniary components (Dunleavy, 1991).

7.3.3 how to shape a bureau

Beyond a certain point, salary considerations become increasingly less 'influential positively or negatively in structuring individual behaviour' (Dunleavy, 1991, p. 201), while work-related utilities become correspondingly more important. At some juncture, an instrumental bureaucrat will draw back from collective budget-maximising activities, and invest instead in individual strategies intended to maximise the positive utilities associated with task performance. In due course, however, just as the scope for securing quantum pecuniary gains diminishes with rank, so too those individual approaches eventually cease to return utility dividends, and/or diminishing returns set in. Once bureaucrats have exhausted their personal capacities to maximise the desirable elements of their working environment, the critical question becomes whether or not there exists a *collective* action strategy which can be supported by officials whose preferences are to maximise other than near-pecuniary utilities. For Dunleavy, there is, to which end he proposes that:

... rational bureaucrats oriented primarily to work-related utilities [will] pursue a *bureau-shaping* strategy designed to bring their bureau into a progressively closer approximation to 'staff' (rather than 'line') functions, a collegial atmosphere and a central location (Dunleavy, 1991, p. 203; original emphasis).

The process of bureau-shaping is directed at altering an organisation's parameters. Because the tasks from which officials derive satisfaction reflect the mix of functions expected of a bureau by its political sponsors, maximising utility requires configuring an agency so as to encompass a greater proportion of the positively-valued work described in Table 7.1 above. Thus, the welfare of senior bureaucrats is chiefly promoted through institutional evolution, and the consequential maximisation of desirable work-related tasks.

More specifically still, the most substantial welfare gains lie in abandoning the traditional bureaucratic form, as a reshaped bureau which is 'small, élite, collegial ... [and] close to political power centres' is more likely to offer a congenial, intellectually stimulating policy environment than is one which is 'heavily staffed, large budget but routine, conflictual and low-status' (Dunleavy, 1991, p. 202). Accordingly, Dunleavy believes that 'national-level delivery agencies ... become transformed over time into control, transfer, [policy], or contracts agencies' (Dunleavy, 1991, p. 203), for it is within agencies of this sort that the proportion of an official's total work time which comprises *policy* work will be highest (James, 1995).

In the process, the utilities of senior bureaucrats are progressively detached from high absolute bureau and programme budgets. An agency's institutional character is reflected in the structure of its budget, and certain budget profiles are more likely than others to deliver welfare gains to officials motivated by non-pecuniary considerations. As long as senior bureaucrats seek gains through budget-maximising strategies, it is in their interests to secure increases in the bureau budget and programme budget components of a large overall appropriation. However, the management of large bureau and programme budgets generates significant transaction costs. The administration of transfer payments requires the performance of tasks which are necessarily routine, repetitive, and rules-based. It tends to take place in large work units, often at some distance from the centre of political power, provides relatively few opportunities for staff to engage in innovative policy development, and demands of senior bureaucrats considerable attention to matters of operational (rather than strategic) policy detail. Moreover, evidence points to the transaction costs associated with fostering relationships between purchase agencies and external service provider organisations, and, in particular, to the costs which attach to the negotiation, monitoring and re-negotiation of purchase contracts (see Boston, 1995; Boston, Martin *et al.*, 1996). In short, the administration of large overall bureau budgets and programme budgets generates the very disutilities which Dunleavy believes senior officials are motivated to avoid.

For this reason, from the point of view of a senior public servant wishing to maximise non-pecuniary work-related utilities it is preferable to work in an environment in which such gains can be extracted from smaller overall bureau and programme budgets. In addition, top officials may have incentives to increase the size of their agency's core budget relative to its total programme budget, particularly if (as a result of bureau-shaping) the output expected from that budget is consistent with the desirable work-related characteristics ascribed to bureaucrats. That argument is at variance with James' (1995) interpretation of the bureau-shaping model. James assumes that core budgets are an important source of both pecuniary and non-pecuniary benefits for senior officials. However, he also argues that there is a trade-off between total policy-work time and levels of core budget per senior bureaucrat: the higher that budget, the greater the demands associated with administering it (on personnel matters, overheads, etc.), and the less time available for desirable policy work. On that basis James believes that senior officials prefer smaller core budgets, but that in departments required to administer large core budgets, more of that budget per senior bureaucrat is required to compensate for the reduction in available policy work time.

The counter-argument advanced here is that in élite policy agencies whose core budget comprises a significant proportion of a small overall bureau or programme budget, beyond the constraint imposed by remunerating staff and maintaining premises (both of which will be modest relative to delivery departments), a large amount of the total budget can be invested in policy development and staff training activities, employing competent policy staff, the fostering of collegial working relationships, and so on. Many such activities can *only* be supported through the core budget: the remuneration of skilled analysts, for instance, must be sourced from an agency's core budget, as must capability building initiatives such as staff training. Importantly, favourable core:bureau:programme budget ratios are most likely to apply in agencies responsible for providing policy advice, regulatory or review services (the majority of which are produced in-house).⁶ Leading policy agencies are therefore more likely to attract officials motivated by the non-pecuniary elements of their work than are their larger delivery counterparts, given that policy design typically possesses more desirable intrinsic characteristics than does policy operationalisation.

⁶ The budget profile of a delivery organisation with significant internal capacity may also approximate this ideal, but will do so in the context of a large absolute bureau budget and/or programme budget. Its attractiveness to policy-level staff is likely to be further reduced by the preponderance of tasks concerning operational policy matters, rather than strategic policy concerns.

There are five principal pathways through which a collective bureau-shaping strategy might be prosecuted (Dunleavy, 1991, pp. 203-205):

1. *major internal structural reorganisations* can be implemented as a means of shifting an agency towards a policy-making ideal. Intra-departmental restructuring driven by bureau-shaping imperatives is likely to privilege the resourcing of preferred policy and research activities, and to quarantine less desirable tasks 'into well defined enclaves which need to be involved as little as possible with senior management' (Dunleavy, 1991, p. 203).
2. the *transformation of internal work practices* can complement internal reorganisation by promoting the performance of high-value, policy-level activities. The channelling of resources away from routine functions towards 'more sophisticated management and policy analysis systems' (Dunleavy, 1991, p. 203) is likely to enhance the status of an agency within the wider bureaucratic community, boost its leverage over policy development, and attract skilled employees.
3. *redefinition of relationships with external 'partner' organisations*. Large delivery agencies, particularly if they both contract out service delivery and maintain an in-house capacity, have interfaces with a range of other organisations. The nurturing of relationships with client interest groups, external providers, and relevant public sector policy agencies is both resource intensive, and exposes departments to political risk in the event of delivery failure. (Norman's wry observation that a 'single public sector failure can draw more publicity than a dozen successes' (Norman, 1999, p. 16) suggests there are benefits to be gained by reducing the number and scope of these dependency relationships). Departments typically seek to manage the potential for such adverse outcomes by contractually specifying the expectations and sanctions attendant upon relationships with external agencies. More desirable still, from a bureau-shaping point of view, an agency would reduce its dependence upon other organisations by reconfiguring its own workload, particularly by increasing its performance of policy-related tasks, which enjoy relatively low public visibility, and which entail few direct implementation risks.
4. departments are likely to *compete with other bureaux* in order to secure additional functions which are consistent with a preferred bureau form. A successful bureau-shaping strategy would be characterised by the accretion of 'tasks and policy areas which fit in with [the agency's] ideal bureau form (especially those tasks with a high

proportion of policy-level staff, which command useful resources and confer prestige or influence, and which tend to increase the average level of managerial discretion within the bureau' (Dunleavy, 1991, p. 204).

5. to secure a net increase in desirable tasks, agencies will engage in *load-shedding, hiving-off and contracting-out*. Senior officials' ability to 'export responsibility for functions inconsistent with [their] agency-type ideal' is described by Dunleavy as '[b]y far the most radical' means through which bureaucrats can reposition their agencies (1991, p. 204). The contracting of service delivery out to non-statutory providers, for instance, or the transfer of routine administrative functions to another government agency, will reduce the resource demands associated with large absolute programme budgets, but preserve a favourable core:bureau:programme budget ratio. The remaining core budget can then be invested in the performance of 'intellectually more attractive tasks such as planning and guidance' (Dunleavy, 1991, p. 207).

7.3.4 a caveat or two

The empirical application of these strategies is accompanied by several caveats. Most obviously, given the particular institutional (indeed, constitutional) context in which the bureau-shaping model has been developed, there are points at which it does not neatly align with arrangements in New Zealand. Most notably, Dunleavy's classification of different bureaux forms, and of both the tasks performed by and the budget configurations which attach to those forms, does not conform with the machinery of government which has emerged out of the New Zealand reform process.

Dunleavy identifies five major bureaux types organised around core functions (delivery, regulatory, transfer, contracts and control agencies) and three additional sub-categories (taxing, trading and servicing agencies) (Dunleavy, 1991, pp. 183-186). (As Michaels (1999) points out, the typology is a significant advance on Niskanen's model, which ignores all but the delivery function). Each of those five core functions is performed in the New Zealand public service, but they are not necessarily housed within discrete organisations. Many delivery agencies also negotiate contracts with external service providers (and a 'contracts' agency might more accurately be described as a 'purchase' agency). Crucially, none of Dunleavy's agency types is the functional equivalent of the numerous policy Ministries which populate the domestic public service. In fact, in his discussion of the characteristics of different agency types (Dunleavy, 1991, pp. 183-188),

Dunleavy makes no specific mention of a policy function. In addition, Dunleavy's control agencies possess funding functions and enjoy a degree of centralised oversight over the management and implementation activities of other departments which is no longer the prerogative of the New Zealand Treasury, the State Services Commission, or the Department of Prime Minister and Cabinet.

In the context of an analysis grounded in the contemporary New Zealand public service there is a strong case for adding a separate 'policy' category to Dunleavy's cast of bureaucratic forms. The assumption that senior bureaucrats prefer policy to service delivery is fundamental to Dunleavy's model, and in New Zealand, policy activity is overwhelmingly concentrated in agencies colloquially referred to as Ministries. Agencies whose core business is the provision of policy analysis and research account for over half of all departments listed in the First Schedule to the *State Sector Act* 1988 (Boston, Martin *et al.*, 1996, p. 83; State Services Commission, 2001b). This gradual displacement of delivery departments by policy Ministries has been an outcome of the comprehensive decoupling of policy from operations, and of the trend towards purchasing service provision from non-departmental providers.

Paradoxically, that process has created a tier of policy-focused agencies which, in Dunleavy's terms, depart from the core:bureau:programme budget ratio allegedly preferred by senior, policy-level officials. Given that a significant proportion of policy output is produced in-house by establishment staff (although a certain amount is contracted out), policy Ministries are likely to have large core budgets relative to their overall programme budgets. That is, their budget ratios are not dissimilar those which attach to (less desirable) delivery departments. This apparent contradiction is, however, offset by two features of most New Zealand Ministries. First, in absolute terms their bureau budgets and programme budgets tend to be smaller than those of delivery agencies (see section 8.4.1). Therefore, as Dunleavy would anticipate, the utilities of policy officials do not depend upon high overall levels of bureau or programme budget. Secondly, the intrinsic features of the tasks performed within policy agencies are overwhelmingly consistent with those identified as attractive to senior officials (see Table 7.1 above). For both reasons, in the New Zealand context it is appropriate to add a 'policy' category to Dunleavy's list of bureaux types.

These architectural differences also mean that in one important respect the distinctions drawn in Dunleavy's model between the respective components of an overall departmental budget do not mesh with those which would apply in New Zealand. Dunleavy places revenue

dispersed by a bureau to private sector suppliers in the bureau budget, but puts funding which is distributed to other public sector agencies in the wider programme budget. In New Zealand, however, where both public and private sector providers commonly compete in markets for publicly-funded goods and services, there is a strong case for including both types of expenditure in the same budget category.

7.4 Conclusion

Dunleavy has theorised an revised rational choice account of bureaucracy which is refreshingly at variance with that promoted in the orthodox literature (the qualifications noted above notwithstanding). Instrumentality remains a defining feature of the refurbished model, but Dunleavy has decoupled bureaucratic utility from budget-maximisation, the latter having proven, theoretically and empirically, an unsatisfactory descriptor of bureaucratic behaviour. That innovation, which has a series of far-reaching empirical ramifications, is made possible by Dunleavy's:

1. rejection of the assumption that open-ended budget-maximisation is axiomatic;
2. adoption of a revised schedule of preferences, such that officials' utility functions incorporate both pecuniary and task-related utilities;
3. linking of welfare maximisation with institutional rank and design;
4. acceptance that human agency can influence institutional form and function.

For the purposes of this study, which is fundamentally concerned with institutional reform, Dunleavy's central insight is that for senior bureaucrats the utilities which flow from shaping an institution's boundaries outstrip those to be had from maximising its budget. By detaching the bureaucratic maximand from a high level of overall budget, Dunleavy has established that utility-maximisation is both more complex than has traditionally been accepted, and not contingent upon indiscriminate budget increases. In so doing he has shifted the focus of inquiry away from the output effects of open-ended budget-maximisation, and firmly onto the manner in which different institutional arrangements create variable incentives for, and can be shaped by, goal-directed behaviour. The linking of bureaucrats' welfare with the particulars of institutional design significantly expands the range and intended consequences of the choices available to officials who wish to subscribe to a collective maximising strategy. It also suggests that those options are woven into the institutional fabric of public agencies; specifically, that they are structured by a given bureau's particular mix of functions, and the concomitant profile of its budget.

The bureau-shaping model is an elegant theoretical construct, but the critical question is whether or not Dunleavy's 'radical counterblast' (Hill, 1997, p. 76) to standard economic models achieves its major purpose of accounting for empirical phenomena 'over a wider range of situations than the budget-maximising hypothesis' (Dunleavy, 1985, p. 315). Dunleavy has acknowledged that the bureau-shaping account has been the subject of limited empirical testing, but argues both that the account 'seems strongly consistent with existing knowledge' (Dunleavy, 1991, p. 8), and that it appears to fit 'closely with a large but disorganised stockpile of anecdotal data about how bureaucrats see themselves and about what they say they are trying to achieve' (Dunleavy, 1985, p. 324).

Prima facie, Dunleavy's model describes the broad process of public service reform, and the particulars of the Employment Strategy, more convincingly than does Niskanen's orthodox account (which was, after all, developed during an era of sustained growth in the size and scope of government). At a general level, for instance, a bureau-shaping strategy would be a more sensible response to hostile exogenous (political and fiscal) circumstances than would a budget-maximising strategy. Specifically, the vertical division of functions, the growth in the number of dedicated policy agencies, the reduction in the number (and size) of delivery departments, and the corresponding tendency for service delivery to be contracted out to non-departmental providers are all inter-locking features of the reform process in New Zealand which lend themselves to a bureau-shaping explanation.

It might well be that Dunleavy's model cogently describes the broad trajectory of public service reform in New Zealand and elsewhere. However, the emphasis within rational choice institutionalism on the linkages between human agency and organisational environments calls for an analysis of the effects of bureaucratic conduct which is grounded in a specific institutional case-study. After all, an institution's structural, procedural and relational features constitute the contexts within which bureau-shaping strategies are purportedly played out (and from which service-wide impacts accrue). To that end, the following chapter applies the bureau-shaping model to the structural changes associated with the Employment Strategy of the National/New Zealand First coalition. Dunleavy insists that bureaucrats are motivated to and can significantly influence the direction and outcome(s) of departmental reform. The next chapter sifts the empirical record for evidence to that effect: that is, that senior DoL and DSW officials were motivated to and did engage in bureau-shaping strategies, and that those activities were pivotal to the eventual institutional outcomes of the Employment Strategy.

Chapter 8 - A tale of two departments

8.1 Introduction

Several years after the production of his seminal 1991 publication, Dunleavy identified bureau-shaping as a dominant bureaucratic response to the fiscal and political exigencies associated with the end of the post-war era of public sector growth. These days, it seems, rational public servants confronted with hostile fiscal policy settings are less inclined to seek out aggregate budget increases than they are to pursue 'work-related utilities, insulating themselves from dependence on a high level of total budget, seeking to reduce exposure to public criticism, to simplify their work tasks, and to concentrate on rewarding and high status activities' (Dunleavy, 1994, p. 51).

The formal model of bureaucracy built by Dunleavy to theorise that trend rests upon a revised bureaucratic maximand, a disaggregated departmental budget, and five strategies through which senior officials motivated by non-pecuniary utilities endeavour to re-shape their departments towards a preferred agency ideal. This chapter seeks to establish whether that model provides purchase on the process and outcomes of the institutional changes which issued from the Employment Strategy. To that end it assesses the degree to which senior officials in the DoL and DSW were motivated to, and successfully re-shaped their departments as policy organisations. In effect, the chapter comprises a search for empirical evidence that:

1. senior officials were motivated to work in small, élite policy organisations rather than large, routine delivery agencies;
2. those officials therefore engaged in all or a combination of the five bureau-shaping strategies to effect institutional change towards an agency ideal-type;
3. subsequent machinery of government changes resulted in more policy Ministries and fewer delivery departments;
4. the budget profiles of those agencies were characterised by smaller overall programme budgets, a sizeable proportion of which comprised core budgets.

The chapter has five sections. First, the comparative research undertaken on the efficacy of Dunleavy's model is reviewed. Subsequently, evidence that senior DoL and DSW officials were motivated to shape their bureaux towards Dunleavy's ideal-type using bureau-shaping strategies (points 1 and 2 above) is sought. Thirdly, the relative success of those strategies is analysed, focusing on the structure and budget profiles of the agencies which emerged

from the Employment Strategy (points 3 and 4 above). The penultimate section assesses the capacity of the bureau-shaping model to account for the outcomes (as opposed to the process) of the Employment Strategy, and the chapter concludes by noting several key features of the process which Dunleavy leaves unanswered.

8.2 The comparative evidence

The authors of a recent analysis of the bureau-shaping model in the Whitehall context believe that Dunleavy has 'breathed new life into existing debates about the behaviour of senior bureaucrats' (Marsh *et al.*, 2000, p. 461). Evidence of that rejuvenation has largely been restricted to publications emanating from the United Kingdom. The broad contours of the model have been described by Blais and Dion (1991a), Dowding (1993), Heywood (1997), Lowndes (1996), Parsons (1995) and Smith (1998), but Dunleavy's own work aside, the most substantive empirical applications of the bureau-shaping model are those completed by James (1995) and Marsh *et al.* (2000).¹

James (1995) applies the bureau-shaping model in explaining the evolution of the Next Steps reforms in the United Kingdom, in which the administration of programme delivery was devolved to executive agencies, with responsibility for policy development remaining largely within departments. James marshals a range of largely qualitative data sources to establish that the adoption of this specific approach to the de-coupling of policy and operations was significantly influenced by the desire of Whitehall mandarins to maximise the proportion of their total work time given over to policy functions rather than to the administration of policy implementation. In the face of political demands that officials attend more closely to the administration of departments' core budgets, senior civil servants chose to shed implementation responsibilities to agencies, freeing themselves from the constraints associated with large core budgets and increasing the amount of time they could dedicate to innovative policy development.

James holds that Dunleavy's framework offers a plausible explanation for the Next Steps reforms, but Marsh *et al.* (2000) are rather more equivocal on that issue. On the basis of a large number of interviews with current and former senior Whitehall officials, they concur

¹ Dunleavy himself appears to have drifted away from research on the bureaucracy. His most recent publications concern matters of electoral law reform and politics at the local and central government level in the United Kingdom, and within the wider European community (see Dowding *et al.*, 1995, 1999; Dunleavy, 2001; Dunleavy and Margetts, 1995, 1997; Dunleavy *et al.*, 1995).

with James that the bureau-shaping model has significantly more explanatory power than has the budget-maximising account (in the context of reforms in the British civil service). However, they also identify a series of flaws in the account which compromise that utility. Those shortcomings (several of which are directly addressed in relation to the Employment Strategy in chapter 9 of this thesis) include the assumptions (a) that 'policy' and 'management' are easily distinguishable, and (b) that senior bureaucrats invariably prefer policy-related work to management functions. The most cogent criticism raised by Marsh *et al.*, however, is that the bureau-shaping model seriously understates the extent to which factors external to both bureaucrats and bureaucracies influence the trajectory of bureaucratic reform. Foreshadowing the conclusion drawn in this chapter, they point out that senior bureaucrats 'are constrained ... in particular, by the wishes of ministers' (Marsh *et al.*, 2000, p. 469), whose own preferences regarding institutional design have a marked bearing on the outcome of bureau-shaping episodes.

Beyond the United Kingdom (indeed, beyond James and Marsh *et al.*), there are relatively few comprehensive studies which employ the bureau-shaping model. In the New Zealand literature, Dunleavy's model is briefly mentioned in Boston, Martin *et al.* (1996) and McLeay (1995), but receives no attention in any of the other major commentaries on the reform process. Michaels (1999), on the other hand, does include a discussion of the model. In the context of an exploration of possible institutional developments in the conservation portfolio, her graduate thesis applies the bureau-shaping (and budget-maximising) models to the putative activities of a hypothetical National Conservation Board. The analysis is largely theoretical, however, and does not test the model against actual bureaucratic case-studies.

In the wider Australasian context there is also scant evidence of the empirical application of Dunleavy's approach. Albin (1992) has explored the fiscal effects of the contracting-out of service delivery within fifty eight sub-national Australian metropolitan authorities. Albin's concern was to establish whether or not contracting-out delivers financial and efficiency utilities to ratepayers. He found that there was only a slight probability that it does so, but that senior managers may seek to capture the contracting-out process 'to maximise their own (rather than taxpayers') utilities' (Albin, 1992, p. 16). Specifically, Albin observed that:

... contracting-out could produce organisational outcomes which advantage distinct groups of employees ... [and] may in fact afford the senior managers

the opportunity to shape their bureaux into administrative-type control units by increasing the number of supervisory and professional staff ... and shedding the less prestigious and less controllable (more unionised?) blue collar workers (1992, p. 21).

Albin's analysis supports Dunleavy's proposition that senior bureaucrats' (non-pecuniary) welfare is a function of the character of their agency, rather than the size of its budget. A study of the introduction of compulsory competitive tendering in the Australian state of Victoria reached similar conclusions (Aulich, 1999). Aulich evaluated the impact of such tendering, and concluded that its impact had been moderated to a certain extent by the bureau-shaping behaviour of senior managers.

Albin and Aulich aside, few other Australasian studies use the bureau-shaping thesis to explain the contemporary preference for strategies such as load-shedding and contracting-out. The work of O'Faircheallaigh *et al.* (1999) is an interesting exception. That study identifies bureau-shaping as one of a number of alternative approaches to reform in the Australian public service. But where Albin and Aulich focus on the motives of bureaucrats, O'Faircheallaigh *et al.* include a discussion of the extent to which members of the political executive also possess incentives to re-shape bureaux, principally so as to secure 'greater leverage to impose their own preferences, while providing more substantial achievements and greater value for money' (O'Faircheallaigh *et al.*, 1999, p. 25). The value of their account lies in its assessment of the impact upon departmental reform of variables external to the bureaucracy. Along with Smith (1998), O'Faircheallaigh *et al.* have raised an important question regarding the bureau-shaping model, one which is echoed in the final stanzas of this chapter, and extended in greater detail in chapters 9 and 10.

8.3 Shaping the bureaux

One of the surprising features of the existing literature on the bureau-shaping model is that very little of it mines the empirical data for evidence of bureaucrats' engagement with bureau-shaping strategies. James (1995) is concerned with the broad explanatory thrust of the model, while Marsh *et al.* (2000) usefully focus on the rigour of Dunleavy's assumptions regarding bureaucrats' utilities. Neither, however, expressly tests Dunleavy's belief that senior officials intentionally implement bureau-shaping strategies as a means of redrawing their departments' institutional boundaries. That is one of the purposes of the following section, which examines whether or not the positions taken during the Employment

Strategy by officials within the DoL and the DSW on matters of employment policy, institutional design, and location, were predicated upon bureau-shaping imperatives.

Given the connection between institutional form and bureaucratic utility proposed by Dunleavy, bureau-shaping strategies represent the conduits through which instrumental officials seek to exercise leverage over the parameters of their organisations, and thereby over the tasks from which welfare gains are thought to derive. In effect, they are the means to bureaucrats' preferred ends. Because they translate motives and intentions into purposive, goal-directed activity, bureau-shaping strategies provide a tangible measure of the existence of utility-maximising behaviour. Collective bureau-shaping strategies may, on occasion, produce outcomes which fall short of officials' expectations, but if Dunleavy is correct, in the context of the Employment Strategy one would anticipate clear evidence that officials employed bureau-shaping strategies for the express purpose of re-configuring their respective departments so as to maximise desirable policy-related activities.

Arguably, officials who do *not* subscribe to Dunleavy's revised maximand could nonetheless engage in conduct which was consistent with one or other of the bureau-shaping strategies. Evidence of the implementation of bureau-shaping strategies need not, therefore, signify the existence of a prior bureau-shaping motive. However, assuming that bureaucratic behaviour is always motivated by some strategic intent (that is, that it is intentional rather than *ad hoc* and disconnected from utility considerations), Dunleavy's framework makes sense of officials' recourse to major internal restructuring, the shedding of undesirable delivery activities, competition with other bureaux for desirable policy functions, and so on. Therefore, the following discussion filters the empirical record for signs of bureau-shaping activity within the DoL and the DSW, explicitly departing from the assumption that such behaviour is an appropriate proxy for the normative preferences for senior bureaucrats.

8.3.1 major internal re-organisations

The first such strategy entails processes of major internal reorganisation. Dunleavy does not specify a sequence in which the strategies are implemented (which point is returned to in section 9.3.4), but it is reasonable to assume that a key purpose of such reorganisations is to strategically position an agency in anticipation of circumstances which provide additional bureau-shaping opportunities. Internal restructuring creates the institutional preconditions for a broader bureau-shaping strategy, which requires engagement with an external environment. Internal changes are therefore likely to take place prior to a critical bureau-shaping decision-moment or event. The important revisions are those which alter

an agency's structure so as to improve its capacity to conform with 'an élite policy-making ideal' (Dunleavy, 1985, p. 322). Thus, the model emphasises growth at the policy-making level, and the location within intra-organisational 'ghettos' of delivery activities which remain within an organisation's purview, but which are inconsistent with the bureau's preferred image.

Well before the Employment Strategy, reorganisations occurred within the DoL and the DSW which were to have a bearing upon the institutional changes heralded by the Strategy. In the early 1990s both departments overhauled their internal administrative arrangements, motivated at least in part by the imperatives of the public service reform process. Following an organisational review in 1988, the DoL established five operational service units and a Corporate Office (DoL, 1990). In 1992 similar changes were implemented in the DSW, resulting in the ring-fencing within operationally autonomous business units of policy advice (Social Policy Agency), benefit administration (Income Support Service), service delivery (Children, Young Persons and their Families Service) and the purchasing of services from community agencies (Community Funding Agency) (DSW, 1992).²

In bureau-shaping terms, that institutional quarantining of activities can be interpreted as evidence of the willingness of senior officials to situate undesirable delivery functions in 'separately designated [and] accountable management units' (Dunleavy, 1991, p. 203) as a prerequisite to divesting an agency of those responsibilities at some future point. The grouping of tasks within autonomous units also buffered policy advice from service delivery, allowing the respective business units to fully focus on their particular functions and responsibilities. In the DSW, for instance, the Social Policy Agency was able to invest in its advisory capacity, while the Income Support Service was able to devote considerable energy to developing its model of active case management. In the DoL, the Labour Market Policy Group (previously the Labour Market Analysis Unit) was encouraged to develop its whole-of-labour-market policy capability, while the Employment Service was freed up to concentrate on assisting people attach to the labour market.

In both instances those changes represented partial progress towards, rather than final attainment of an ideal bureau-shaping outcome. However, both sets of intra-organisational revisions assumed a particular significance in the Employment Strategy, when it rapidly became obvious that the architecture of the service/business unit model lent itself to

² Appendices 3 and 4 depict the structures of the respective department following those changes.

structural reforms envisaged by the coalition government. As detailed in chapter 3, the DoL vigorously contested the institutional merging of income support and employment services, but in the context of a political preference for separating policy from operations, the relative ease with which an autonomous Employment Service could be 'plucked' from the DoL and re-situated elsewhere rendered the department vulnerable to that outcome.

Conversely, the chief executive of the DSW enthusiastically embraced the prospect of shedding the Income Support Service to a new integrated agency. Had the department (or the DoL for that matter) retained its traditional administrative arrangements, in which regional and district offices undertook the spectrum of services for which the agency was responsible (Petrie, 1998), detangling the income support function from the DSW's other activities would have been highly challenging. However, the establishment of the business units, which amounted to a process of internal corporatisation, made that task much less fraught than it would otherwise have been. In the context of the Employment Strategy, then, the business unit structure proved an important prerequisite to (a) the shedding of the Income Support Service to the Department of Work and Income in October 1998, and (b) to the reconstitution of the Children, Young Persons and their Families Agency as a Department of Child, Youth and Family Services exactly a year later.³ By clustering policy and delivery activities within separate stand-alone agencies which could be detached from the parent department, the senior management of the DSW constructed an organisational matrix which was successfully broken down into its constituent parts and reassembled in the form of three new agencies (the Ministry of Social Policy, the departments of Work and Income and Child, Youth and Family Services). There are clear risks in retrospectively attributing specific intent to officials' actions (see section 9.3.4), but the strategic intent of senior departmental officials had been obvious for some time. In the senior echelons of the former DSW it was plainly acknowledged that the directions in which the department was to be reshaped had been planned:

... well before the last election. [We] knew that following the election we would be ready to restructure this department. We had this briefing paper for an incoming minister, and it was really setting out how the Department of Social Welfare should be restructured. We were quite clear as to what the model should be (official, interview, 1998).

³ The Agency had been formed from the merging of the Children, Young Persons and their Families Service and the Community Funding Agency a month after the creation of the Department of Work and Income. See Appendix 4.

8.3.2 transformation of internal work practices

That the DSW was able to seize the opportunities provided by the Employment Strategy to attain that preferred structure was due in no small part to transformations in internal work practices which flowed from the creation of its business units. One such set of changes in particular was to grant the department considerable leverage in the debate over the target population for the coalition government's employment policy, the resolution of which was critical to subsequent decisions regarding organisational form, function and location.

It was noted in sections 3.2.1 and 3.3.1 that following its establishment in 1992 the Income Support Service had aggressively pursued the shift from passive benefit administration to an active case management approach to service delivery. Throughout the mid-1990s the agency had become 'very much employment and self-reliance focused' (official, interview, 1998). The customised approach to service was intended to generate 'better services and outcomes for clients, savings in benefit expenditure, reduced debt creation and benefit crime, and greater efficiency in delivery' (Petrie, 1998, p. 39). It revolved around the allocation of a single case manager to each service-user, and was delivered through an expanded network of 'high street' locations and call centres (Petrie, 1998).

The model was not universally endorsed. Community groups and beneficiary advocacy bodies, for instance, consistently criticised the size of the case-loads carried by frontline staff, the under-resourcing of call centres, and the apparent unwillingness of officials to inform beneficiaries of their full entitlement (Social Services Select Committee, 1997). However, the DSW's own data indicate that active case management met with considerable success. The level of operational performance developed by the Income Support Service led an official to describe it as 'a franchise. It's tight. If you think McDonald's is tight, then you go and have a look at Income Support' (interview, 1998). Another embellished that description by noting that the Service had significantly:

... reduced the time of delivery. When Hickton took over in '92, there was sort of six to ten days turn-around. Well, they reduced that down to twenty four hour turn-around. Between '92 and '97, [there were] 55,000 more benefit applications, and each of them had to be processed, each of them had to be verified. The number of transactions was huge. [But] they actually reduced their operating costs. They reduced the cost to the taxpayer of doing the delivery. They were delivering more in terms of volume, they were delivering more in terms of the functionality, and costing the taxpayer less.

Then they started to look at making sure that their outputs were strategically focused at getting people off benefits. They did it really smartly (official, interview, 1998).⁴

At the core of that 'strategic focus' was the belief that case management should actively assist beneficiaries into work, and should therefore be extended to all working-age recipients of income support. The DSW and the Income Support Service engaged in a number of complementary strategies designed to engender political support for that orientation, chief amongst which was the staging of the *Beyond Dependency Conference* in 1997. Within the department itself the conference was seen as 'a very big undertaking in terms of changing values and public expectations, and really bringing an issue out' (official, interview, 1998). The issue in question concerned the extension of the DSW's activities into an area (the interface between beneficiaries and employers) which had traditionally been the preserve of the Employment Service, and the application of the Income Support Service's case management model to a wider audience of beneficiaries.

Importantly, the conference occurred at the very time at which the debate regarding the Employment Strategy's target population was being played out in G5 and amongst officials. Having spent a great deal of time 'establishing that they were the leaders in the case management field, and [having] done a lot of positioning before this occurred' (official, interview, 1999), the Income Support Service and the DSW approached the contest from a position of strength. On the other hand, the DoL seems to have been 'badly placed for a fight of this nature' (official, interview, 1999). One senior official believes that there was a widespread perception that 'the Employment Service couldn't show much for the money that they spent, and that their internal systems were not really up to scratch' and that it was clear from 'miles away that the Employment Service was going to be crucified in the Employment Strategy' (interview, 1999).

In the event, the DSW was able to cite the performance of the Income Support Service as evidence of the efficiency and effectiveness gains to be had from wrapping a case management approach around employment policy, and extending that model to all working-age beneficiaries. G5 ministers concurred with the department's case, and their decision on the target audience was wholly consistent with the DSW's advice. In turn, that

⁴ George Hickton was appointed as the first General Manager of the Income Support Service in 1992. Ironically, Hickton had been the General Manager of the New Zealand Employment Service for the previous three years.

decision weighted subsequent deliberations on organisational design and location heavily in favour of the DSW's preference for a stand-alone integrated delivery agency. Structural integration would have made little sense had G5 opted for a more modest target population. However, the transformation of benefit administration within an autonomous delivery unit, and the successful advocacy of that model by a parent department, laid the foundations for revisions to the machinery of government which would enable the DSW to shed responsibility for the delivery of a wide range of services.

8.3.3 load-shedding, hiving-off and contracting out

Dunleavy argues that '[b]y far the most radical possibilities for top-tier agencies to reshape their functions arise from their ability to export responsibility for functions inconsistent with senior officials' agency-type ideal' (Dunleavy, 1991, p. 204). A department can pursue that end by reducing an existing in-house delivery capacity and increasing its purchases from other providers. Load-shedding can also be achieved by divesting delivery responsibilities to other (often newly created) public agencies.

Throughout the Employment Strategy, there was strong support within the DSW for pursuing the latter as a means of discarding responsibility for the administration of income support and the delivery of services to children, young people and their families. Well before the election it had become:

... quite clear that this place should be restructured into an Income Support Agency, which would be a Crown entity, and a Department of Child and Family, which should be a government department, and that [the remainder of the department] should be a super-social policy sector that would pick up some of the other things other than our own area (official, interview, 1998).

The intentions of the senior management of the DSW were well known in the wider departmental sector. An official on Alf Kirk's Steering Group recalls that:

Social Welfare basically didn't want it [the merged agency] in Social Welfare, because they were trying to scale down the size of Social Welfare. They'd made a decision. Even if there had not been a Department of Work and Income, they were seeing that Income Support would have to be separated out. So in a sense it would be unfair to see Social Welfare, as a

department, as being territorial. They were actually embarked on a set of changes to make the department more manageable (interview, 1999).

Other officials concurred with that assessment, one of them noting that the DSW's chief executive 'had begun to set the time that Social Welfare needed to break up into different organisations. She'd been looking at what was being done in Australia, where they pushed the intensive part of the work, the hard cases, out into the private sector' (interview, 1998).

By the time of the Employment Strategy, the DSW was committed to shedding its delivery responsibilities. However, notwithstanding that the 'DSW went in with a position where we had done a lot of strategic thinking ... about desirable outcomes' (official, interview, 1998), the department's wish to slough off those delivery functions depended on prevailing in the debates over (a) the form of integration (that is, whether integration should be structural or virtual), and (b) the location of the integrated agency. Had ministers opted for the virtual model promoted by the DoL, the DSW would have had difficulty mounting a convincing case for shedding the Income Support Service. In all likelihood, the symmetry of maintaining an interface between policy and operations in both departments (the Labour Market Policy Group and the Employment Service in the DoL, and the Social Policy Agency and the Income Support Service in the DSW) would have prompted Cabinet to retain the institutional *status quo*.

However, with the support of other agencies the DSW did convince G5 to endorse structural integration, substantially on the basis of the department's success in promoting the merits of applying its active case management model to all working-age beneficiaries. That decision greatly enhanced the DSW's chances of having the new agency established as a stand-alone entity, for as explained in section 3.3.1, the sheer size of a fully integrated income support and employment agency militated against its retention within one or other of the two existing parent departments.

G5's decisions on organisational form and location provided an institutional architecture which ensured that in the space of a year the DSW was able to pass on virtually all of its previous benefit administration, purchase, youth justice, adoption and child protection services to other (newly created) departments. On 1 October 1998 benefit administration shifted to the Department of Work and Income. Three months later the Community Funding Agency and the Children, Young Persons and their Families Service merged to form

the Children, Young Persons and their Families Agency, which became a stand-alone department on 1 October 1999. As a consequence of the pre-planned 'loss' of three of its five business units, the residual DSW (Corporate Office and the Social Policy Agency) employed fewer than 200 staff (having previously engaged as many as 6,500) (DSW, 1999). Virtually all of those officials were engaged in policy-related work, and on 1 October 1999 the two remaining business units came together (along with a recently established Purchase and Monitoring Group) to form a new Ministry of Social Policy. In bureau-shaping terms the department had succeeded in reinventing itself as a policy-focused agency. It had, in Dunleavy's words, grasped a 'unique opportunity to engage in the wholesale reshaping of [the] bureau to attain [the] ideal form of a small, élite staff agency' (Dunleavy, 1991, p. 226).

Reflecting on the outcomes of the Employment Strategy, a senior bureaucrat suggested that 'most people would say that Margaret Bazley got her strategic policy satisfied' (interview, 1999). The same could not be said for Bazley's equivalent in the DoL, John Chetwin, whose organisation had been heading 'down one path, when suddenly it looked as if government policy was going to take it down quite another' (official, interview, 1998).

In fact, much of the DoL's engagement with the Strategy does not sit comfortably with a bureau-shaping explanation (the ramifications of which are explored in the following chapter). While the DoL had previously pursued initiatives which had resulted in some load-shedding and contracting-out (including the establishment of the Education and Training Support Agency as an autonomous purchase entity), in 1997 it was implacably opposed to shedding the service delivery capacity which resided within the Employment Service (see section 3.3.2.2). Precisely because of the institutional consequences for the department attendant upon each issue, the DoL contested both the structural model of integration, and the proposal that the integrated agency should be set up as a stand-alone organisation. Far from embracing the chance to evolve towards Dunleavy's ideal-type, in the Employment Strategy the DoL desperately sought to fend off the risk that it would be required to shed a significant portion of its delivery responsibilities.

8.3.4 competition with other bureaux

In that exercise, the DoL was required to strenuously contest other departments' positions on questions of policy and institutional design. Rather than engaging in that competition in order to export less desirable delivery functions, as Dunleavy would predict, the DoL's battles (particularly with the DSW) were motivated by an express desire to retain those

tasks. On matters of policy the department seems to have been ambivalent, and on governance issues it actually concurred with the DSW, but on the crucial considerations of organisational design and location the DoL did not resile from its conviction that the retention of both policy and delivery was fundamental to the integrity of its operations.

The DSW, on the other hand, had no compunction about promoting the removal from its orbit of ‘troublesome and costly low-grade [delivery] tasks’ (Dunleavy, 1991, p. 204). Much of the competition in this regard between the DSW and the DoL was played out in the core debates, but even before the Employment Strategy some of the DSW’s initiatives had antagonised other agencies. Thus, a former DSW official has noted that ‘we’d even had Income Support starting to make direct contact with employers, and moving on work experience. This created some tension with the Employment Service. That was happening before the 1996 election, and that tension at some stage had to be resolved’ (interview, 1998).

During the Employment Strategy that and other tensions were manifest in the opposing stances adopted by the DSW and DoL on the issues of policy, integration, and institutional location. The competitive tactics adopted by the DSW also extended to questioning the performance of other organisations. A former member of the Steering Group believes that ‘it was very much in Social Welfare’s interests to show the Employment Service as [having] being ineffective, and there was a lot of inquiry into: ‘What had all these programmes been achieving anyway?’ ’ (official, interview, 1999). Conversely, of course, it was also in the DSW’s interests to demonstrate that ‘Income Support had a score sheet from 1992 to 1998 that, basically, nobody else could match’ (official, interview, 1998).

There is some evidence, too, that competition between agencies took the form of disagreements amongst officials over the structures which guided decision-making during the Employment Strategy. A bureaucrat from one delivery agency recalls that, despite being:

... a senior official, I was not part of the core group, and certainly some of the other senior officials desperately wanted to keep delivery people outside of that core group, and to keep the focus on the policy. So, that was all a matter of who you wanted to include in the political bunfight, basically (interview, 1999).

In fact, the convenor of the ODWG 'was not happy about keeping [delivery agencies] out' of the ODWG's meetings, but it is quite clear that some policy Ministries were less than enthusiastic about delivery organisations being represented on the group, and agreed to its eventual composition 'somewhat grudgingly' (official, interview, 1998).

8.3.5 redefinition of relationships with external partners and stakeholders

The new institutional economics literature indicates that there can be sizeable transaction costs associated with the maintenance of relations between departments and groups such as client representative lobbies, sub-contractors, and other subordinate public agencies (see Boston, 1995; Scott, 2001). Those costs are especially high for delivery departments, which encourages senior officials motivated by bureau-shaping imperatives to 'cut down on routine workloads but to maximise their agency's policy control' (Dunleavy, 1985, p. 323). The principal means of achieving that objective is through shifting delivery tasks to other providers (as per section 8.3.3 above), thereby minimising the agency costs deriving from contact with stakeholder groups and service providers.

However, the particular attraction for policy-focused bureaucrats in reducing their agencies' involvement in service delivery lies in the tendency for the separation of policy from operations to grant policy agencies important leverage over the policy settings which shape the operational priorities of delivery departments. From a bureau-shaping perspective, senior officials derive considerable work-related utility from their ability to influence the development of the policy environments of other organisations, particularly when that capacity is exercised independently of an in-house responsibility for managing service implementation.

The attraction of acting as a policy 'patron' to other organisations may well have motivated DSW's position on institutional design, for G5's endorsement of structural integration eventually meant that the Ministry of Social Policy provided policy and purchase advice to ministers which stretched across the operations of two large delivery agencies (the departments of Work and Income and Child, Youth and Family Services), and the activities of a number of other public entities, including the Housing Corporation of New Zealand, Housing New Zealand, the Retirement Commissioner, and the Commissioner for Children (Ministry of Social Policy, 2000). By virtue of being able to concentrate solely on the generation of policy analysis and advice across a number of sectors, the Ministry of Social Policy was in a strong position to influence the substance and trajectory of the public policy administered by other agencies.

But the potential policy ‘reach’ of the new Ministry was attenuated by Cabinet’s decision to constitute the integrated agency as a department rather than as a Crown entity. Delivery departments have a tendency to incrementally develop their own non-operational policy capacity in order to contest the advice provided to ministers by dedicated policy Ministries. That point has been made by a member of the Steering Group, whose view is that:

... any agency in that position that didn’t develop a policy arm would be crazy, because it’s going to have to defend its purchase decisions, it’s going to have to defend its funding, it’s going to have to be able to have a voice at the Cabinet table, and it is going to have to be able to provide a stream of advice to a minister. So you are going to get some duplication of policy in my view. I would be very surprised if it [the Department of Work and Income] doesn’t develop a policy arm (official, interview, 1999).

That assessment may explain why both the DoL and the DSW (unsuccessfully) championed the Crown entity model. For as a senior Ministry of Social Policy official noted:

... the policy/delivery split where the delivery agency is a Crown entity is a cleaner operation, because a department can effectively make choices about how it organises its resources. It doesn’t have its role and its responsibilities specified to the extent, in a constitutional way, that a Crown entity does. A department can actually grow if it has got the resourcing. You know, [the Department of] Corrections now has a substantial policy side to it, but there is also a [policy] Ministry of Justice (interview, 1998).

In bureau-shaping terms, the optimal resolution for the DoL and the DSW would have been the creation of a Crown entity. That outcome would have embedded both agencies’ policy authority over operational matters, and ensured that they were the principal purchasers of the Crown entity’s output. Instead, Cabinet’s preference for a department increased the probability that the Department of Work and Income would in due course contest its relationship with the two ‘parent’ policy organisations. Indeed, had other political imperatives not intervened (see section 10.5), over time the new department’s policy team might well have become ‘more powerful than any external policy agency, because they [were] the ones with the information and the business analysis’ (official, interview, 1999).

8.4 Bureaux-shaping outcomes

The purpose of this chapter is to test the propositions that:

- the conduct of senior officials during the Employment Strategy was motivated by bureau-shaping imperatives; and
- those officials achieved their preferred institutional outcomes.

Thus far, the empirical record indicates that some senior officials' instrumental preferences were manifest in their engagement in various bureau-shaping strategies. Arguably, bureau-shaping was forced upon rather than actively pursued by the DoL, but there are strong indications that in the DSW officials actively sought opportunities to reconfigure their organisation, particularly through shedding delivery responsibilities to other departments.

The passages which follow move beyond inferring bureaucrats' motives from observable conduct, and survey the structural arrangements and budget profiles which emerged out of the Employment Strategy for signs that the behaviour prosecuted by, in particular, the DSW, resulted in alterations in agencies' institutional parameters which were consistent with the tenets of the bureau-shaping model. In particular, evidence that (a) structural changes resulted in more policy Ministries and fewer delivery departments, and (b) that those policy organisations administered smaller overall programme budgets comprising a sizeable core budget could be interpreted as confirmation of the utility of Dunleavy's model in this specific context.

8.4.1 outcomes in the DSW

Reflecting on the motives of the chief executive of the DSW, the Associate Minister for Education in the National/New Zealand First government professed to knowing 'full well that her vision was, in fact, to have one grand Ministry which incorporated education, social welfare, just about the lot' (Donnelly, interview, 1999). By 1 October 1999 the DSW had divested itself of the overwhelming majority of its former delivery functions, and faced the future as a slimmed-down, dedicated policy agency positioned to extend its reach across the span of domains referred to by Donnelly. In bureau-shaping terms, the organisation's chief executive had successfully managed the transition from a large delivery department employing some 6,500 staff to a focused policy Ministry staffed by fewer than 200 officials (DSW, 1999, p. 9).

Aggregate staffing trends provide a degree of support for Dunleavy's hypothesis, but the most compelling evidence of the success of the DSW's bureau-shaping endeavours lies

buried in the transformation effected in the structure of the organisation's budget during the late 1990s. A comparison of the budget profile reflected in the Ministry of Social Policy's first Annual Report with those contained in earlier DSW Reports indicates the extraordinary degree to which the department had, because of decisions taken in the Employment Strategy, evolved towards an ideal bureau-shaping form.

Table 8.1 - Budget trends in the DSW (\$000; June years⁵)

| Budget | 1992 ⁶ | 1994 | 1996 | 1998 | 2000 ⁷ |
|--------|-------------------|------------|------------|------------|-------------------|
| core | 518,851 | 482,267 | 480,854 | 494,094 | 126,720 |
| bureau | 10,231,203 | 10,167,654 | 10,817,462 | 11,760,612 | 126,862 |
| prog. | 10,245,577 | 10,281,309 | 10,921,956 | 11,866,790 | 145,685 |

Notes (for both Tables 8.1 and 8.2):

1. Core budget figures comprise expenditure in the following categories: (a) personnel, (b) operating (which incorporates rent and leasing costs), (c) depreciation and (d) capital charge. It also includes the cost of (e) contingent liabilities. Dunleavy does not employ this category, but it seems reasonable to assume that the cost of legal proceedings and disputes must be drawn from a core budget.
2. Bureau budget figures comprise (a) appropriations for the payment of benefits and other unrequited expenses, (b) capital contributions to other persons/organisations and (c) other expenses incurred by the Crown (e.g. allocations to the Blinded Servicemen's Trust Board).
3. Programme budget figures comprise expenditure on classes of outputs supplied by non-departmental parties. Because the Annual Reports of both the DSW and the DoL identify expenditure by output class, and do not distinguish between non-public sector and public sector providers, all such spending in this category has been included. Dunleavy would include the cost of purchases from private sector organisations in the bureau budget category.

⁵ Data in Table 8.1 are sourced from the Annual Reports of the DSW between 1992 and 1998, and from the Annual Report of the Ministry of Social Policy for 2000.

⁶ The 1992 Annual Report did not include three of the categories included in the bureau budget category (see note 2 above); neither was it possible to ascertain whether or not that information might have been incorporated in other categories. The Report of the Audit Office included in that year's Annual Report noted that the department had failed to provide sufficient evidence to support qualitative, quantitative, timeliness and unit cost performance measures across a number of output classes (DSW, 1992, pp. 86-87).

⁷ Data reported here include transitional funding received by the Ministry of Social Policy until 1 October 1999 for the purposes of establishing the Department of Child, Youth and Family Services. The figures therefore slightly overstate the extent of the Ministry's core business.

Table 8.1 sets out the evolution of the DSW's core, bureau and programme budgets between 1992 (the year in which its business units were established) and 2000. For the better part of the decade the agency's core budget remained relatively static, and comprised a small proportion of what was an increasingly large programme budget: in 1992 the core budget stood at 5.06% of the total programme budget, in 1996 the proportion was 4.44%, and by 1998 it had fallen to 4.16%. That much might have been predicted of what was, in Dunleavy's terms, a hybrid delivery/transfer organisation with a significant service delivery capacity, and responsibility for administering a growing quantum of transfer payments.

By 2000, the structure of the department's budget looked radically different. Two features of the change require particular comment. The first was the significant drop in the size of the core budget, occasioned by the transfer of former DSW staff to the new departments of Work and Income, and Child, Youth and Family Services. In 2000 personnel costs in the Ministry of Social Policy were only 15.70% of those which had applied in the DSW only two years earlier. Secondly, as a function of the removal of responsibility for the administration of welfare benefits to the Department of Work and Income, the Ministry's bureau budget had virtually disappeared. In 1998 payments of benefits alone accounted for 94.91% of the bureau budget disbursed by the DSW, but having successfully divested itself of that transfer function, the Ministry of Social Policy's overall programme budget plummeted.

Therein lies a critical connection between the DSW's position in the Employment Strategy on the debates regarding policy and organisational form, and the contours of the budget eventually administered by the Ministry of Social Policy. The successful advocacy by the department (and the Minister of Social Welfare) of the application of active case management to all working-age beneficiaries by a structurally integrated agency enabled the agency, through a series of bureau-shaping initiatives, to shed its delivery responsibilities to other departments. In effect, its senior officials were able to pass on the transaction costs associated with administering large bureau and programme budgets to other organisations. As a consequence, the DSW was successfully reshaped as a dedicated policy agency which exercised immediate and direct control over fully 86.98% of its total budget. Consistent with Dunleavy's predictions, for the Ministry of Social Policy's officials the removal of the implementation and purchase activities formerly associated with the Income Support Service, the Children, Young Persons and their Families Agency, and the Community Funding Agency resulted in:

- independence from a large overall bureau/programme budget; and

- a total budget which was significantly accounted for by the core budget.

Freed from its former operational responsibilities, by the end of 1999 the Ministry of Social Policy was able to concentrate almost exclusively on nurturing its internal policy capacity. In Dunleavy's terms, staff members' utilities had been 'unlinked from dependence on a high absolute level of programme or bureau budget' (Dunleavy, 1991, p. 203), and officials were able to pursue the non-pecuniary pro-values associated with the tasks performed by a small, policy-focused agency. In bureau-shaping terms, the former DSW had become a 'fully evolved bureaucratic ideal' (Michaels, 1999, p. 158).

8.4.2 outcomes in the DoL

The same conclusion cannot be reached with regard to the DoL. As a consequence of decisions taken in the Employment Strategy the agency did indeed proceed some distance down the bureau-shaping path, but in terms of both its institutional profile and budget structure, the outcomes of the process for the DoL were rather more contingent than they were for the DSW/ Ministry of Social Policy.

The transformation of the DoL most closely approximates the bureau-shaping model with regard to the size and composition of its staffing complement. In October 1998 the department lost 1294 staff to the Department of Work and Income, leaving it with a workforce of some 902 (including overseas staff and statutory officers).⁸ Moreover, as the majority of those officials had previously been employed in the Employment Service, their loss likely resulted in the allocation within the DoL of a greater proportion of time and resources to policy work than had previously been the case.

However, the staffing and operational parameters of the DoL only loosely fit Dunleavy's ideal policy-type, because in addition to its in-house policy capacity the department retains significant operational responsibilities in the areas of employment relations, immigration, and workplace health and safety. The DoL also remains a comparatively large organisation; in June 2000 it employed 843 staff (considerably more than the 183 listed by the State Services Commission (2001a) as working in the Ministry of Social Policy), only fifty two

⁸ Those figures were contained in a response from Peter McCardle to a parliamentary question asked by then Opposition spokesperson on labour matters, Steve Maharey (NZPD, Supplement 3, 1998, p. 776). The Minister's data are at variance with information supplied on 27 November 1998 by the chief executive of the Department of Work and Income who, in response to a request made under the *Official Information Act* 1982, indicated that a total of 1205 departmental staff were formerly employed with the DoL (Rankin, 1998).

of which were situated in the department's strategic policy unit, the Labour Market Policy Group.

Table 8.2 - Budget trends in the DoL (\$000; June years⁹)

| Budget | 1992 | 1994 | 1996 | 1998 | 2000 |
|----------------------|---------|---------|---------|---------|---------|
| core | 133,757 | 135,978 | 174,020 | 231,267 | 129,228 |
| bureau ¹⁰ | 133,757 | 135,978 | 174,020 | 231,267 | 129,228 |
| prog. | 406,254 | 552,673 | 581,629 | 719,970 | 539,868 |

On the other hand, one important trend found in the structure and trajectory of the DoL's budget *is* consistent with the core bureau-shaping hypothesis. The data contained in Table 8.2 reveal that following the loss of the Employment Service in 1998 the department's overall programme budget and its core budget fell. The shrinkage was particularly pronounced in the latter. As former delivery staff shifted to the Department of Work and Income, the DoL's personnel costs fell by almost half. In conjunction with a corresponding reduction in operating costs, that decrease in staff numbers caused the department's core budget to drop 55% in two years.

In two pivotal and related respects, however, the agency's budget profile does not neatly align with that which would be anticipated in an elite policy organisation. Most tellingly, the DoL continues to administer a large overall programme budget. Whereas the DSW managed to rid itself during the Employment Strategy of the single largest component of its total budget (benefit expenditure), the DoL still purchases large clusters of non-departmental output classes under Vote: Labour, Vote: Accident Insurance, and Vote: Employment (DoL, 2000). Its programme budget is noticeably smaller in absolute terms than it was the year immediately prior to the changes foisted on the agency through the Employment Strategy, but is not markedly lower than the levels which applied throughout most of the mid-1990s. For Dunleavy's bureau-shaping official, the achievement of positive policy-related activities is critically contingent upon escaping dependence on high

⁹ Data in Table 8.2 are sourced from the Annual Reports of the DoL between 1992 and 2000.

¹⁰ Were it possible to identify the recipients of expenditure on non-departmental output classes, the bureau budget category would include spending on private/voluntary sector organisations. However, as the Annual Reports do not draw that distinction, all purchases of non-departmental output are included in the programme budget category. That choice does not greatly affect the conclusions drawn in the associated discussion; they are simply expressed as the relationship between the core budget and the programme budget, rather than between the core budget and the bureau budget.

total bureau and/or programme budgets; in that particular respect, the DoL's senior cadre have enjoyed only moderate success.

Secondly, because the sharp reduction in its workforce has not been mirrored by a diminution in its non-departmental purchase activity, the DoL's core budget accounts for a reasonably small portion of its programme budget. In the final fiscal year before the establishment of the Department of Work and Income, the department's core budget amounted to 32.12% of its programme budget, but in its first full fiscal year without the Employment Service that proportion actually dropped to 23.93%. Assuming the caveat set out in section 7.3.4, the bureau-shaping model would anticipate an *increase*, not a reduction in the size of the agency's core budget relative to its overall bureau/programme budget. In 2000 the Ministry of Social Policy directly controlled 86.98% of its total budget; conversely, the DoL exercised discretion over less than a quarter of its budget. That the department's officials continue to manage interfaces with external service providers presumably detracts from their ability to invest in the innovative staff functions which Dunleavy assumes they would prefer to focus on.

8.5 Dunleavy and the departments

In important respects the circumstances of the DoL are inconsistent with the precepts of the bureau-shaping framework. That raises a question regarding the degree to which the model is genuinely capable of 'explain[ing] empirical phenomena with more precision [and] over a wider range of situations' (Dunleavy, 1985, p. 315) than are other competing accounts of bureaucratic behaviour.

Table 8.3 - Departments' engagement with the Employment Strategy

| Issue | Bureau-shaping sympathetic | Bureau-shaping non-sympathetic |
|-------------------------------|-----------------------------------|---------------------------------------|
| policy target group | DSW | DoL |
| organisational design | DSW | DoL |
| institutional location | DSW | DoL |
| governance | DSW, DoL | - |

In the context of the Employment Strategy, the principal deficiency is that neither the motives of senior DoL officials nor the post-Strategy architecture of the department are amenable to a bureau-shaping explanation. Regarding the first, the data (canvassed in sections 3.3.1 to 3.3.4) are unequivocal, and the point conveyed by Table 8.3 is that in

three of the four debates which determined the course of the Employment Strategy, the DoL adopted stances which were inconsistent with an ideal bureau-shaping outcome.

In Dunleavy's model officials are prepared to countenance 'the hiving-off and privatisation of much of their departments. By reshaping bureaux through hiving-off troublesome and routine management work, high-ranking officials can maximise their utility at the same time as cutting their programme budgets' (Marsh *et al.*, 2000, p. 463). That observation partially describes the *outcome* of the Employment Strategy for the DoL, but it manifestly fails to capture the *orientation* of its officials to the process. Had the department's senior bureaucrats been genuinely motivated by bureau-shaping imperatives, they might have been expected to unequivocally endorse the application of the Strategy to all beneficiaries of working-age; instead, they consistently raised concerns about the logistical and policy difficulties likely to be created by the adoption of a large target population. A bureau-shaping DoL ought to have joined the DSW in embracing structural integration and the creation of a stand-alone agency as the most effective means of rationalising its own delivery activities. The reverse occurred; the agency railed against the de-coupling of policy and operations and advocated the retention of an institutional *status quo* which was, in its own case, a considerable distance away from Dunleavy's pure policy agency.

Secondly, while the structural and budgetary characteristics of the DoL bear some resemblance to those of an agency still in the process of being re-shaped, the empirical record points to the fact that those features were imposed upon, rather than solicited by the department. As one of Alf Kirk's colleagues on the Steering Group has noted, the DoL 'hung on grimly to the idea that a virtual integration would be sufficient, because it was their last hope, really, of surviving outside the Social Welfare-dominated department' (official, interview, 1999). The agency's rear-guard action failed, but the point is that even if the post-Employment Strategy DoL is on the way to becoming a 'control, [policy], transfer or contracts agencies' (Dunleavy, 1991, p. 203), that is a function of the interplay between external variables, not of the active pursuit by its senior officials of a clearly defined bureau-shaping vision.

However, if Dunleavy does not allow for a wholly convincing interpretation of the position of the DoL *vis a vis* the Strategy, he certainly enables a compelling theorisation of the motives and conduct of the DSW's officials. Unlike their contemporaries in the DoL, the case made by the DSW on each of the four critical issues set out in Table 8.3 was congruent with an ideal bureau-shaping outcome. Most importantly, with one exception the

department prevailed in those debates, and as a consequence both the functional structure and budget configuration of the Ministry of Social Policy slot neatly into the paradigm proposed by Dunleavy.

The bureau-shaping model comfortably accounts for the DSW's energetic preparation for and sponsorship of an enlarged target group, and Cabinet's 15 September 1997 decision to reach well past long-term unemployed beneficiaries generated a logic and momentum behind the case for an integrated agency which meshed with the DSW's own position on that issue. A decision against full integration would have made it substantially more difficult for the department to spin off the Income Support Service and the Children, Young Persons and their Families Agency; the 15 December decision for structural integration, however, had been largely predetermined two months earlier when Cabinet agreed to an expanded target audience for the Employment Strategy.

Cabinet's rejection of the DoL's preferred (virtual integration) option significantly increased the probability that the coalition government would also accept the DSW's advice to set up a stand-alone delivery agency. To rehearse the point made by Alf Kirk (in section 3.3.3), the government's endorsement of institutional autonomy was central to the DSW's plan to 'scale down the size of Social Welfare' (Kirk, interview, 1998). The immediate effect of the edict was the 'loss' of the Income Support Service to the Department of Work and Income, while the second order consequences included the completion of the process of de-coupling policy and operations in the DSW through the establishment of the Department of Child, Youth and Family Services. Ideally, the Department of Work and Income would have been constituted as a Crown entity rather than as a department. In bureau-shaping terms, however, the particular governance arrangements that applied were secondary to the DSW's officials' success in casting off each of the department's three large delivery units, thereby 'bring[ing] their agency into line with an ideal configuration conferring high status and agreeable work tasks' (Dunleavy, 1991, p. 209).

The bureau-shaping model also offers a relatively precise means of linking preferred institutional outcomes, contests around specific policy matters, and concrete strategies. There is little doubt that the DSW's senior *cadre* was motivated to attain policy status. Indeed, a month after the establishment of the Department of Work and Income one of that number noted favourably that the then Prime Minister 'has said that housing is to come here, and employment policy and social policy, and I believe it will all happen' (official, interview, 1998). The department's route to that end lay in successfully rolling

out a range of bureau-shaping strategies in the context of the four pivotal debates. Having (1) transformed its internal work practices, the DSW was in a strong position in the debate regarding target populations; (2) its internal structural changes meant that, when presented with the opportunity to do so, it was able to (3) hive off its operational activities; throughout (and preceding) the Employment Strategy the agency (4) competed with other bureaux with a good deal of success, and duly secured institutional changes which resulted in (5) favourable redefinitions of its relationships with external partners and stakeholders.

8.6 Conclusion

The objective of this research is to establish the determinants of the institutional changes which flowed from the Employment Strategy. With its emphasis on purposive bureaucratic agency, rational choice appealed as a gateway into that process. The dominant budget-maximising account proved singularly unfit for that purpose. Dunleavy's bureau-shaping model, however, provides a vastly more plausible explanation of the consequences of the coalition's employment policy for the machinery of government. Both principal bureaucracies, the DoL and the DSW, were shunted well down pathways which the model comfortably describes. The Ministry of Social Policy, in fact, possessed both a budget and a functional 'terms of reference' for which Dunleavy's 1991 publication might have served as a manual.

The model also offers a cogent means of connecting those sorts of institutional outcomes with the motives and observable conduct of key bureaucratic actors. That is, Dunleavy proposes a causal relationship between instrumental agency and bureaucratic reform which is highly attractive in the context of the Employment Strategy. There is, in particular, good reason to conclude that the DSW's officials saw the Strategy as a long-awaited opportunity to propel their agency into the policy élite. They had assiduously prepared the groundwork through internal structural revisions and the transformation of working practices, such that the department was well positioned to move quickly and decisively when 'Peter McCardle just opened the door for it to happen' (official, interview, 1999).

However, several distinctive attributes of the Employment Strategy remain beyond the reach of Dunleavy's model. Most obviously, it cannot account for the implacable opposition of officials within the DoL to each of the decisions taken in the Employment Strategy. That point has been explored at length immediately above, but there is simply no escaping the fact that the department's consistent refusal to grasp bureau-shaping

opportunities jars with the assumptions about bureaucrats' preferences which are at the core of Dunleavy's case.

Neither can the bureau-shaping framework convincingly explain the establishment of the Department of Work and Income as a government department (nor the subsequent creation of the Department of Child, Youth and Family Services). Given the strong preferences of both the DoL and the DSW, the rational bureau-shaping outcome would have been for integration to have occurred in the form of a Crown entity. In the New Zealand context, that model offers the best means of locating service delivery beyond the departmental sector, but within range of the policy leverage exercised by the core Ministries. The creation of a Crown entity would also have been consistent with the inference within the bureau-shaping model that the hiving-off of delivery responsibilities reduces the number of delivery departments. Instead, by the end of 1999 the number of government departments had grown by two, and both new additions to the First Schedule of the *State Sector Act* 1988 (the departments of Work and Income and Child, Youth and Family Services) were large delivery agencies.

The fact that the Crown entity option was not chosen raises a third serious difficulty, which is that Dunleavy does not provide the conceptual tools necessary to fully explain the ways in which exogenous variables constrain bureaucrats' choices and possible courses of action. His model is based upon the assumption that bureaucratic reform is principally a function of bureaucrats' choices: that is, that senior officials are invariably able to give effect to their bureau-shaping preferences, subject to 'a budgetary constraint contingent on the existing and potential shape of the agency's activities' (Dunleavy, 1991, p. 209). But of course bureaucrats are not as omnipotent as that assumption suggests. To give but one example from the Employment Strategy; integration occurred in the form of a department because that is what the government's ministers wanted. The decision was taken in spite of (indeed, in opposition to), rather than because of the preferences of bureaucrats.

And so for all its explanatory power, which in the context of this case-study is significant, the utility of the bureau-shaping model is finally constrained by its inattention to the political realm in general, and to the leverage of the Cabinet in particular. As is suggested in the next chapter, by no means does that render the model redundant. Its exposition of the bureaucratic portion of the politics/administration equation remains powerful and cogent, albeit in need of some supplementation. However, Dunleavy's relative silence on matters political does demonstrate that the considerable insights the bureau-shaping model permits

are bounded by flaws in its theoretical fabric. Those blemishes constrain the model's ability to address the issues of institutional etymology which lie at the heart of this research. For that reason they are attended to in some detail in the next chapter, following which Dunleavy's contribution is complemented by a theoretical analysis of the importance to policy-making of the institutions which comprise the political executive.

Chapter 9 - The problem with bureau-shaping

9.1 Introduction

After the event, the National/New Zealand First coalition's Minister of Social Welfare maintained that, had he not convinced his G5 colleagues to accept the application of the Employment Strategy to all working-age beneficiaries, he would not have achieved the establishment of a stand-alone, structurally integrated Department of Work and Income (Sowry, interview, 1998). Roger Sowry's view points to what is perhaps the most startling absence from an otherwise sophisticated and powerful model of bureaucracy: the capacity to accommodate the influence which political imperatives have on the bureau-shaping behaviour of officials.

This chapter constitutes a process of theoretical 'winnowing', through which the strengths of Dunleavy's model are separated from its limitations. The former are several, such that an analysis of bureaucratic refurbishment would be the poorer were it to ignore the bureau-shaping argument. In the context of this study, for instance, it provides sharp instruments for probing the intentions of the DSW's officials, and the institutional outcomes of their subsequent actions. However the model's shortcomings are, in a few instances, too significant to be overlooked. Amongst them are an inattention to (a) evidence that bureaucratic behaviour reflects a range of motives, and (b) the influence of external variables on the outcomes of the Employment Strategy. Both must be acknowledged before the final Part of the dissertation can be engaged, in which Dunleavy's rational choice approach to the study of institutions is reconciled with historical institutionalism.

This chapter begins by assessing the value which Dunleavy has added to the scholarship on bureaucracy. Subsequently, issue is taken with several aspects of the revised rational choice method. Finally, two concrete examples are presented of the fashion in which these characteristics skew the analysis of the Employment Strategy which derives from the bureau-shaping model. That analysis is in most other respects a convincing one, but that it falls short of providing an all-encompassing account of the process demonstrates the need for coupling Dunleavy's model with a second and complementary institutionalist approach.

9.2 Adding value

The bureau-shaping model has been described as ‘a genuine public choice theory with a formal model in which higher bureaucrats are assumed to be aiming at personal satisfaction’ (Tullock, 1993b, p. 181). The crucial difference between an earlier generation of public choice notables and Dunleavy is the latter’s belief that officials ‘get the satisfaction differently’ (Tullock, 1993b, p. 181). Tullock is only partly right, however, for not only do Dunleavy’s bureaucrats employ different strategies to those pursued by their budget-maximising counterparts, the essential nature of their utilities also differs to those proposed by traditional public choice scholars. It is that difference which makes Dunleavy so useful in contemporary contexts, for by disconnecting bureaucrats’ welfare and departmental budgets, and linking it instead with work-related (and specifically policy-related) tasks, he has dragged the economic model of bureaucracy into the twenty-first century.

9.2.1 a revised maximand in an altered environment

In this respect Dunleavy has responded to the call to increase the predictive accuracy of the tradition’s formal models by incorporating more realistic and relevant behavioural assumptions (Mueller, 1993; North, 1993). Dunleavy’s revised bureaucratic maximand, rooted in the assumption that senior officials are principally motivated by the nature of the tasks they undertake, receives endorsement in the literature which finds that public servants are overwhelmingly interested in the non-pecuniary aspects of their work (see section 5.3.1). In this study it goes a long way to explaining why many of the senior officials involved in the Employment Strategy actively promoted the fragmentation of the departments of Labour and Social Welfare, and (less successfully) pressed for the location of routine service delivery beyond the confines of the departmental sector.

The new maximand is also intuitively appealing in the climate of fiscal austerity and antipathy to public provision which has prevailed in this country, and in other jurisdictions, for some years. It is inordinately difficult for a bureaucrat confronted by shrinking fiscal parameters to extract ever-increasing budgets from political sponsors. In such circumstances a bureau-shaping strategy directed at reconfiguring a delivery department into a small policy agency makes very good sense indeed. For while there is certainly greater contestability in the market for policy advice than there was in the pre-reform era, the aggregate capacity of the public service to provide advice across the spectrum of government activity is not yet matched by non-public sector providers. Moreover, it seems quite rational that contemporary officials might wish to orient their agencies towards tasks

which are, in general, likely to remain core state activities (such as the provision of advisory, purchase, regulatory and monitoring services).

On the other hand, there is a good deal of contestability in the market for the provision of material goods and services. Indeed, in chapter 6 evidence was set out which demonstrated that an increasing proportion of public expenditure contributes to purchases from non-departmental service providers. A department operating in such an environment is more vulnerable than one which faces limited non-state competition. In conditions of that nature, then, the 'smart bureaucratic act is ... likely to be bureau-shaping' (Self, 1993, p. 34): doing more policy work and less direct delivery protects an agency against budget reductions and increases its policy leverage.

9.2.2 instrumental officials and the rediscovery of institutions

Dunleavy has altered the bureaucratic maximand, but he keeps faith with the rational choice creed that public servants are utility-maximisers. That maxim is highly problematic when employed in a vacuum (see section 9.3.3 below), but when complemented by an acceptance that officials possess a range of different motives (see section 9.4.1 below), it constitutes a valuable feature of the bureau-shaping model. Its principal attraction is that it restores to bureaucratic actors the capacity to act upon the institutional parameters within which they function. Dunleavy's accommodation of purposive, goal-directed agency constitutes concrete men and women as the subjects of organisational evolution, rather than as the passive objects of change driven by disembodied institutional forces. Analyses which ignore individuals' motivations and explain institutional change exclusively by reference to de-personalised forces are hollowed-out. In such accounts bureaucratic institutions become reified and immune to intentional human agency. Using Dunleavy's framework, however, it is possible to understand the institutional outcomes of the Employment Strategy as consequences of contests between individuals. The demise of the DSW and the down-sizing of the DoL were neither immutable nor materially predetermined; both sets of circumstances transpired because particular people (acting either as individuals and/or in concert) were motivated by their views regarding optimum institutional arrangements.

But Dunleavy is refreshingly willing to connect a reconceived instrumentality with institutional conditions. This grounding of bureaucrats' utilities within specific institutional contexts has several important effects. First, it rescues the notion of self-interest from the perjorative mire of greed and selfishness. In turn, and happily for public servants, if self-interest derives not from budgets but from work, it becomes difficult to caricature

bureaucrats as shiftless individuals given to shirking their responsibilities. In this respect Dunleavy offers a route past the received public choice wisdom that bureaucracies are 'bloated public services, staffed by indolent bureaucrats' (O'Faircheallaigh *et al.*, 1999, p. 24): bureau-shaping bureaucrats do more work, not less.

Secondly, Dunleavy's institutionalism encourages a sophisticated and institutionally-specific approach to understanding the ways in which organisations' functions shape bureaucrats' utilities. Given the multiple variations in bureaucratic form and function, there is an inevitable trade-off in the ability of institutional rational choice to specify outcomes which are generalisable across different bureaucratic régimes. The reverse advantage, however, is that the bureau-shaping model allows for research strategies which are tailored to particular bureaucratic and political circumstances (James, 1995). Chapter 6 demonstrated just how incapable an orthodox rational choice analysis is of explaining the Employment Strategy (and the experience of structural reform in New Zealand more generally). Indeed, the dissolution of the DSW alone offended against the most fundamental principles of that model. But by applying bureau-shaping precepts to the case-study, a more nuanced profile of the process and its various outcomes emerges.

9.2.3 accommodating the New Zealand experience

Dunleavy's utility extends well beyond the parameters of the case-study in this research. He is also able to accommodate the contribution of officials who support initiatives such as the purchase of output from non-public providers, the ceding of delivery functions to Crown entities and other non-departmental organisations, and the vertical division of policy and operations. Given the characteristics of public sector reform both here in New Zealand and elsewhere, that is a powerful capability.

While recent developments in New Zealand have reduced the latitude for budget-maximisation, they have created an environment which is substantially more conducive to the pursuit of bureau-shaping outcomes. Two particular features of the post-reform bureaucratic architecture come to mind in this regard. First, New Zealand policy-makers' constant recourse to institutional change as a standard response to policy problems (State Services Commission, 1998a) has provided bureau-shaping officials with a steady supply of opportunities to alter the institutional parameters of their departments. In the Employment Strategy, for instance, the vertical division of policy and operations furnished the DSW with a ready-made instrument through which it could implement substantial load-shedding. In fact, it is difficult to think of a template for bureaucratic change which is better

suited to the 'outsourcing and residualizing [of] government's implementation roles' (Dunleavy, 1994, p. 36) than the functional model of de-coupling policy and implementation.

Secondly, the devolution to chief executives of an extensive range of management prerogatives through the provisions of the *State Sector Act* 1988 has increased the discretion they exercise regarding the internal structure and functioning of their agencies. Their control over the deployment of inputs enables chief executives to look beyond their own department's delivery capacity, which provides opportunities for gradually promoting a functional capability and budget profile which is increasingly consistent with the bureau-shaping ideal. Indeed, those statutory prerogatives enabled the chief executive of the DSW to establish the agency's five business units in 1992, and to oversee the evolution of the Income Support Service's approach to active case management. In time, both strategies were to prove critical to the DSW's ability to successfully promote its variant of organisational change via the Employment Strategy.

Finally, Dunleavy provides a highly convincing explanation for a number of system-wide trends in the New Zealand public service. The signal finding in chapter 6 was that the traditional economic model could not cater for the overall reduction in public spending on the departments, the slump in the number of public servants, the gradual shifting of service delivery out of the core departmental sector, and the increase in the number of dedicated policy agencies. But on the basis of his refurbished maximand and revised budget typology Dunleavy can explain each of these. Senior officials motivated by work-related utilities seek to escape their dependence on high overall budgets. In order to do so they shed expensive and troublesome delivery responsibilities to other agencies. Hiving-off reduces aggregate expenditure in the public service, and requires departments to employ fewer staff and to undertake less service delivery. Ultimately, load-shedding also leads to a public service landscape largely inhabited by small agencies staffed by officials who spend the bulk of their time engaged in innovative, stimulating and rewarding policy tasks.

9.3 Matters of method

Nowhere has Dunleavy extravagantly claimed that his model can account for all instances of bureaucratic change; he has simply offered it as a better and more comprehensive model than the orthodox budget-maximising model. While it explains a great many of the institutional developments associated with the Employment Strategy, it ought not be

surprising that there remain several key features of that process which the bureau-shaping model is unable to account for. Indeed, it is expecting a little much to demand that a framework developed in one historical and administrative context fully cater for an exercise in bureaucratic reform which occurred in quite different circumstances. On closer inspection, though, there are certain attributes of Dunleavy's revised rational choice approach which suggest that its explanatory utility is constrained by its internal features, rather than by the particulars of the Employment Strategy.

9.3.1 the problem with presuming maximisation

Dunleavy's contention that budget-maximisation no longer constitutes the bureaucrat's maximand (if it ever did), is arguably his most important advance on standard public choice explanations. However, while he is prepared to partially endogenise preference formation (such that an official's specific menu of utilities, and the associated choice of maximising pathways, reflect both rank and a department's functions), Dunleavy nonetheless remains wedded to the fundamental maxim that bureaucrats are inherent utility-maximisers. Indeed, he specifically warns that altruism as a source of motivation 'need[s] to be excluded from any useful public choice model' (Dunleavy, 1991, p. 194). In the interests of maintaining an exclusive concern with instrumental bureaucratic behaviour, he successfully reshuffles bureaucrats' utilities '[w]ithout positing an other-regarding or ideological commitment by officials to their bureau or its mission' (Dunleavy, 1991, p. 201).

The point was made in chapter 5 that the predictive deficiencies of rational choice are connected with its insistence on modelling rational behaviour as the maximisation of a sole objective. The exemplar, of course, is Niskanen's budget; the higher the budget, the greater the flow of utilities to senior bureaucrats. But Dunleavy, too, has adhered to the dictum by proposing that bureaucrats' welfare (expressed as a series of pro-values) is determined by their capacity to effect institutional change towards an ideal form; the greater the leverage exerted, the more likely that an official will be able to engage in stimulating policy tasks in a congenial organisational environment.

Of the two objectives, Dunleavy's is by far the more complex, subtle and appealing. Nonetheless, the presumption that officials are motivated to maximise their bureau-shaping influence excludes consideration of other potentially important influences on the behaviour of senior bureaucrats. Data on the many motives of officials was reported in chapters 3 and 5 of this thesis. To repeat one example, it is clear that the DoL's desire to hold onto the Employment Service derived from a strongly held view that the institutional proximity of

policy advice and operations enriched both aspects of the department's responsibilities. It might reasonably be inferred, then, that senior managers within the DoL were motivated less by bureau-shaping considerations, and more by a desire to provide to the department's various stakeholders the best possible policy *and* service delivery performance. That deduction, however, jars unpleasantly with Dunleavy's continued insistence that bureaucrats are driven to maximise a circumscribed set of utilities (albeit work-related rather than pecuniary).

9.3.2 ... through a process of quantification

Part of the problem is that Dunleavy shares with other rational choice theorists a preoccupation with empirically grounded, quantifiable data. He relies especially heavily on expenditure trends within different budgetary categories as the bases from which to demonstrate the nature of bureaucrats' motives. Thus, changes in core:bureau:programme budget ratios are interpreted as confirmation that bureaucrats have regular recourse to bureau-shaping strategies, which evidence is then held up as proof that bureaucrats' behaviour is prompted by bureau-shaping motives.

However, the fact that many of the phenomena described by the bureau-shaping model have transpired in the case of the Employment Strategy (and the New Zealand reforms more generally) does not *ipso facto* prove Dunleavy's central assertion beyond contest. Sympathetic aggregate budget trends *can* be interpreted as important indicators of officials' motives, and of the success of bureau-shaping measures. That such proxies are relatively hard-edged is one of the strengths of the model. However, spending patterns are influenced by a range of variables, and in isolation they are an imperfect measure of bureaucrats' preferences. Most worryingly, by screening out officials' own subjective assessments of their conduct, the bureau-shaping model's behavioural assumptions cannot be tested against the views of senior bureaucrats themselves. In Dunleavy's *oeuvre* no qualitative data are drawn from interviews with officials (or politicians) regarding their preferences, motives or strategic decisions (Marsh *et al.*, 2000, p. 465). As James (1995, p. 624) points out, that ascribes to the framework a circular tendency to (a) use assumed preferences to explain officials' behaviour as bureau-shaping, and (b) to establish the nature of those preferences by observing that conduct and its outcomes.

Crucially, however, the core assumption, which rests upon the belief that 'rational officials want to work in small, élite, collegial bureaux ... [rather than in] heavily staffed, large budget' agencies (Dunleavy, 1991, p. 202), goes unquestioned. Just as Niskanen seems to

have had little interest in rigorously establishing that bureaucrats are motivated to drive up total budgets, Dunleavy does not demonstrate that senior officials *do* actually subscribe to the values which are central to his revised maximand (a preference for innovative policy work, longer time horizons, smaller work units, and so on) (Lowndes, 1996, p. 189). Those values are 'cited in the administrative sociology literature' (Dunleavy, 1991, p. 201), but no references to that literature are contained in Dunleavy's seminal text. In the absence of suitably compelling evidence that these values are endorsed by bureaucrats, the degree to which Dunleavy's list (see Table 7.1) accurately describes officials' welfare functions remains hypothetical.

Two specific problems derive from this. First, Dunleavy casts 'policy' and 'management' as discrete and distinguishable activities, and so fosters the assumption that senior officials wish to undertake only policy-related work and to avoid all management tasks (James, 1995; Lowndes, 1996; Marsh *et al.*, 2000). That significantly misrepresents the reality of the bureaucratic function. Even within élite policy agencies, the execution of desirable activities (indeed the day-to-day administration of a complex organisation) inevitably requires some management, even if it is not of programme implementation *per se*.

The execution of management tasks is an inevitable function of the Crown's ownership interest in its departments. In New Zealand, in fact, section 32 of the *State Sector Act* 1988 expressly charges public service chief executives with 'the efficient, effective, and economical management of the activities of the Department'. The chief executives' employer (the State Services Commissioner) has pointed out that '[a]ll Chief Executive roles demand an understanding of senior management in a public environment' (State Services Commission, 1998a, p. 15). It is an especially complex and exacting role, one which requires the lead bureaucrat of a government department to:

... weed out weak managers, shed redundant workers, re-examine or sever long-standing relationships with suppliers, actively recruit from outside the Public Service, negotiate the wages of senior managers, revamp operations, abandon low-priority activities, manage their assets, commit in advance to output and cost levels, take responsibility for the volume and quality of services, negotiate employment, purchase and performance agreements, respond to numerous inquiries from Parliamentary committees and central agencies, represent the department to the media and public, be responsive to the Minister, and more (Schick, 1996, p. 46).

That exhaustive (and incomplete) job description contains few references to stimulating policy functions, but a great many to activities which are managerial by nature. It applies to the chief executives of both policy and delivery agencies, and suggests that it is erroneous to assume that the execution of management functions comprises little or no part in the working life of the most senior public servants. In this regard it may be that the bureau-shaping model better describes the working environment not of lead bureaucrats, but of mid-ranking officials who do not have the onerous personnel and resource management obligations of chief executives, and who are therefore better able to devote the bulk of their time to policy development activities (but less able to exercise authority over an agency-wide bureau-shaping strategy).

Secondly, the reliance on a hard-edged behavioural postulate also leads Dunleavy to ignore the possibility that bureau-shaping strategies may be activated by other than bureau-shaping reasons. It is surely not inconceivable that officials could engage in what Dunleavy would describe as bureau-shaping conduct without subscribing to the corresponding maximising strategy. For instance, chief executives prompted to internally restructure their departments may simply be trying to boost intra-agency allocative efficiency; they may choose to shed delivery tasks to non-departmental providers because the latter possess specialist expertise which is in short supply in their own agencies. In both cases, outcomes which approximate those predicted by the bureau-shaping model might well be achieved, but for reasons which are not connected with the model's central assumptions.

Yet Dunleavy makes no provision for placing a subjective assessment of senior bureaucrats' motives alongside a formal analysis of institutional and budgetary outcomes. He simply departs from untested assumptions which may or may not accurately describe officials' motives and preferences. This reliance on partial data has prompted comments on the need to supplement Dunleavy with detailed attitude surveys administered within senior bureaucratic communities (such as that undertaken by Marsh *et al.*, 2000). A quantifiable treatment of budget profiles and structural outcomes has much to offer, but will not readily give up information on individuals' subjective preferences. Arguably, the best sources regarding the drivers of bureaucratic behaviour are bureaucrats themselves, for which reason some have advocated the incorporation within the bureau-shaping model of 'interview data, which allow us to examine: the actual preferences of individual civil servants; how individuals construct, deconstruct and reconstruct the decision-making context in which they are operating; and how they assess the likelihood of various outcomes' (Marsh *et al.*, 2000, p. 465).

9.3.3 collective action issues

The assumptions on which Dunleavy's revised maximand is predicated generate a third difficulty with the bureau-shaping model. Ironically, it is a variation on criticisms made by Dunleavy regarding the orthodox economic model (canvassed in section 5.3.3.1). James has made the point that Dunleavy's framework is 'incomplete because it does not incorporate a model of individual bureaucrats' decisions to contribute to bureau-shaping strategies' (James, 1995, p. 616). That is, by assuming that all bureaucrats face the same incentives to maximise their engagement with policy-related work, Dunleavy overlooks the possibility that some may be inclined *not* to subscribe to a collective bureau-shaping strategy.

For Dunleavy the benefits of a successful bureau-shaping exercise are not limited to a lead bureaucrat, but are instead enjoyed by all (but particularly by senior) officials. Therefore, a positive outcome will presumably require the co-ordinated contribution of a department's entire staff. However, it cannot safely be argued that all bureaucrats within a given department will share a vision of an 'ideal bureau form' (Dunleavy, 1991, p. 204). Dunleavy's own analysis of the collective action issues which dog Niskanen can be invoked here to illuminate the generic point that bureaucrats' assessments of the risks and benefits attaching to a collective strategy reflect their rank and status within an organisation. In short, if the incentives to bureau-shape are at least partially rank-dependent (and are, in particular, concentrated at senior levels), it may not be accurate to assume that it is in the interests of all junior officials to subscribe to a collective bureau-shaping strategy. Indeed, given their relative dis-engagement with policy tasks (and vulnerability to load-shedding strategies), it is probable that junior staff would far prefer a budget-maximising strategy to one intended to increase an agency's focus on policy work. After all, lower-ranked bureaucrats' job security and promotion prospects are likely to be harmed by a successful bureau-shaping strategy in which routine operational functions are hived-off.

9.3.4 consequentialism and the limits of human agency

The likelihood that bureau-shaping incentives are not uniformly distributed across the bureaucracy points to an additional problem with Dunleavy's rational choice method. Laffin (1997, p. 54) has warned against the 'temptation to over-rationalise human behaviour retrospectively', and to interpret bureaucratic conduct as rational and goal-centred after the event. Along with Hall and Taylor (1996, p. 952), who have lamented the tradition's tendency to 'explain the origins of an institution largely in terms of the effects that follow from its existence', Laffin considers consequentialism to be an unfortunate hallmark of rational choice. His concern is certainly apposite in the context of this project,

for while there is considerable congruence between Dunleavy's model and the developments described in chapter 3, which encourages the conclusion that the structural outcomes of the Employment Strategy were substantially determined by the outcome-specific strategies of the DSW, that is an incomplete basis on which to impute causality.

Dunleavy's premium on human agency has merit: it establishes the scope for bureaucrats to effect change in institutions treated by previous generations of rational choice scholars as 'inertially-guided [and] unsteerable' (Dunleavy, 1994, p. 51). But that same characteristic also encourages a tendency to ascribe to people's actions a degree of purpose and strategic premeditation which may not exist in some, or indeed many instances. The purposes accorded the five bureau-shaping strategies are cases in point. Driving off the assumption that the utilities of maximising bureaucrats derive substantially from institutional form, the strategies make sense only insofar as they translate an official's preferences into goal-directed action. Thus, a senior bureaucrat's decision to shed undesirable delivery functions is thought to reflect a conscious assessment that that strategy provides an effective (indeed imperative) means of shifting an agency towards a preferred form (the nature of which is deduced from the bureaucrat's preference structure).

Decoupled from the prescribed bureau-shaping outcome, however, the five strategies are stripped of an over-arching context, lose purpose and direction, and are reduced to a series of spontaneous and disconnected activities. But the notion that all bureaucrats' behaviour is based on a strategic calculus consciously geared towards the maximisation of utility (however defined) verges on the tautological. In this respect the structure of Dunleavy's logic does not differ greatly to that proposed by Niskanen thirty years ago. Dunleavy has rehabilitated human agency, and proposes a much more realistic set of bureaucratic utilities, but both the orthodox and the revised rational choice models rest upon a maximising assumption which is a poor explanation of bureaucratic behaviour. It is certainly possible to interpret the establishment of the DSW's business units, and the subsequent development of an active approach to case management within one of those units, as bureau-shaping strategies. However, it is rather a challenge to demonstrate conclusively that the primary driver behind both initiatives was a long-term bureau-shaping strategy which was to bear fruit eight years (and several changes of government) after it commenced. To do so would require evidence of a staggering degree of pre-determination and strategic alliance-making across a great many bureaucratic and political actors. (On the other hand, if no such strategy existed it is incorrect to characterise the activities described in sections 8.3.1 to 8.3.5 as bureau-shaping strategies. It then becomes difficult to make any bureau-shaping

sense out of what occurred in the DSW.) But if nothing else, this project has demonstrated that the Employment Strategy was not characterised by concerted action of that nature. In short, while the observable behaviour of officials in the Income Support Service and the DSW over a long period of time can be accommodated within the bureau-shaping model, that does not categorically establish that that conduct was exclusively predicated upon the corresponding motives, nor that it was solely responsible for the outcomes of the Strategy.

Moreover, it is not clear whether a collective maximising strategy necessarily requires a simultaneous investment in each of the five bureau-shaping strategies. Dunleavy does not rank them in order of bureau-shaping effectiveness; neither does he specify that, in order to exert maximum influence upon institutional re-organisation, the strategies ought to be pursued in a particular sequence. Yet officials might well opt for a strategic approach to the implementation of a bureau-shaping strategy, as there may be points during an agency's evolution towards an ideal-type at which one or other, or a mix of the five strategies could be pursued to optimal effect. For instance, a process of internal reorganisation (strategy 1) would likely have an impact upon the character of the work subsequently performed within an agency (strategy 2). Having completed the process of reconfiguring its internal capacity, an agency might then be in a stronger position to focus its resources on its relationships with other departments and non-public sector bodies; it would almost certainly have a clearer sense of which tasks and duties it wished to compete for, and which it wished to hive off or contract out. However, the relative merits of adopting a strategic approach to bureau-shaping are not explored by Dunleavy.

Lastly, there is a whiff of institutional determinism about Dunleavy's model. The charge that human agency is too frequently subjugated to institutional imperatives is commonly levelled against the new institutionalism in its various guises (Thelen and Steinmo, 1992). Thus, Dunleavy countenances institutional specificity, but because an official's utilities and maximising pathways reflect an organisation's design, in the final instance human agency remains substantially context-bound. There is little in Dunleavy which permits bureaucratic choice and conduct at variance with the incentive structures established by departments' functional parameters. He has certainly given bureaucratic actors a larger territory to roam about in than Niskanen did, but that latitude is ring-fenced by features of organisational design. In other words, while Dunleavy has helpfully decoupled public servants' utilities from the size of departments' budgets, he has not unbundled bureaucratic intentionality and institutional context. At the aggregate level this seems little different to Niskanen's own

determinism; institutional configuration has simply been substituted for budget size as the focus and cardinal driver of bureaucrats' behaviour.

9.4 What remains unexplained

The central task of this thesis is to tease out the determinants of the institutional changes brought about through the Employment Strategy. As a consequence of the interplay between the various issues sketched above, Dunleavy's contribution to that task is a contingent one. Two defining features of the Strategy elude the bureau-shaping model. The first concerns the conflicting revealed preferences of competing sections of the bureaucratic community. That officials have variable motives was highlighted by the DoL's antagonism to the separation of policy and operations (in the face of the DSW's strong support for it), but was also manifest in the creation of two delivery departments through the dissolution of the DSW. The second trait was the role of ministers in the Strategy. Both before (during the government formation process) and throughout the entire process, G5 ministers and Cabinet played a role in framing and resolving the four debates which shaped the institutional outcomes of the Employment Strategy which sits beyond the reach of the bureau-shaping model.

9.4.1 bureaucrats' varying preferences

The model's silence on both of these facets of the Employment Strategy is a result of one or other, or a combination of (a) Dunleavy's dependence on the assumption that bureaucrats seek to maximise a single objective, (b) his insistence that his revised maximand accurately captures the spectrum of bureaucrats' utilities, and (c) the powerful inference in the bureau-shaping model that officials drive institutional change.

The DoL's unrelenting opposition to the structural integration of income support and employment services illustrates the problems associated with assuming that a single maximand applies uniformly to all bureaucrats. In the pursuit of 'parsimony and ... stripped-down assumptions' (Marsh *et al.*, 2000, p. 469), Dunleavy has replaced one single, undifferentiated bureaucratic maximand (budget-maximisation) with another (bureau-shaping). In rational choice institutionalism the assumption of fixed preferences sits uneasily with the focus on institutions; having rediscovered the latter (which are by definition multiple and variable), the tradition oddly continues to cling to the former. Yet the evidence gleaned from the Employment Strategy confirms that public servants possess variable preferences, and are correspondingly motivated to achieve an assortment of

outcomes. Some clearly derive satisfaction from executing a mix of policy and management functions (Marsh *et al.*, 2000). The rational choice theory of 'revealed preferences' (Sen, 1977, p. 323) offers insights in this regard. The construct suggests that the preferences of bureaucrats are revealed in the choices they make regarding matters of institutional design, and the behaviour which drives off those choices. If Dunleavy's position on the issue is correct, the preference-orderings of policy-level bureaucrats in the DoL and the DSW would have favoured the formation of policy agencies rather than delivery departments. However, the DoL's bureaucrats consistently revealed preferences on issues of organisational design which were incompatible with Dunleavy's model. Had he been motivated to pursue policy-related activities, the chief executive of the DoL would have supported shedding the Employment Service to the Department of Work and Income. Instead, John Chetwin's DoL contested the case for fracturing the interface between policy and operations. That the DoL expressed choices (regarding both integration and organisational location) which were antithetical to a bureau-shaping outcome reveals that its officials were *not* motivated by Dunleavy's maximand. Instead, their motives prompted them to struggle to retain, rather than to slice apart, the linkages between policy and implementation functions within their department.

Dunleavy struggles with bureaucrats whose revealed preferences are not commensurate with those of the inhabitants of the bureau-shaping model, but who instead consciously promote non-maximising courses of action. So he is also badly placed to explain the behaviour of senior officials who actively prefer 'management' to 'policy'. In fact, the conception of rationality built into his model leads to the dubious conclusion that the chief executives of delivery departments are *irrational* actors. (In this respect the term 'rational' connotes goal-directed, maximising behaviour. An irrational actor is so only in the sense that they are prepared to accept sub-optimal outcomes).¹ Nonetheless, there are bureaucrats who are not, in fact, averse to 'find[ing] themselves stranded in the professional Siberia of ... large operational agencies' (Michaels, 1999, p. 153). The chief executive of the Department of Work and Income, for one, headed up an organisation which was (and which remains in its current incarnation as the Ministry of Social Development) the single largest department in the New Zealand public service. A month after it commenced operating the department employed approximately 17% of the total public service workforce, and its chief executive was responsible for a programme budget, including social assistance grants, which accounted for some 35% of government expenditure in 1999.

¹ Sen (1977, pp. 342-344) has a fine discussion on the nature of irrationality in rational choice.

An official who participated in this research inadvertently provided a highly specific demonstration of the fallacy of assuming that all senior bureaucrats wish to lead policy organisations. Interviewed shortly after the appointment of the chief executive of the Department of Work and Income, he suggested that Christine Rankin had ‘won the position on the basis of her track record as an effective manager of a large service delivery organisation’ (official, interview, 1998). That view was endorsed in court action taken by Rankin against the Crown some years later (see section 10.5), during which the Chief Judge of the Employment Court indicated that it was ‘plain that [Rankin] was appointed because of her strengths in managing service delivery organisations’ (Goddard, 2001, p. 18). One of those agencies was the Income Support Service, of which Rankin had been General Manager since 1995. However, she had worked in the public service in a variety of capacities over a considerable period of time. First employed as a cadet in the former Valuation Department, Rankin joined the DSW in 1978 as a benefit administration clerk (Goddard, 2001). In 1987 she became a District Director (the youngest person and first woman to hold that position), was appointed Northern Regional Manager of the Income Support Service following its creation in 1992, and became its head three years later (Goddard, 2001). Described as a ‘strong, committed manager’ with particular expertise in ‘operational environments’ (Goddard, 2001, pp. 17-18), it is clear that Rankin had every intention of pursuing a long career as chief executive of the government’s largest delivery department. It was widely accepted that ‘she felt profoundly emotionally bonded to ... the job’ (Clifton, 2001, p. 17); the degree of that attachment was described by a former State Services Commissioner who, in the process of reviewing the operations of the Department of Work and Income, observed that ‘it is difficult to separate the person of the chief executive from any consideration of the department’ (Hunn, 2000, p. 3). But in no respect did the department fit Dunleavy’s conception of an ideal-type agency. On the contrary, it possessed most of the features of an archetypal cumbersome delivery agency: it was characterised by a corporate atmosphere (see Hunn, 2000), a large complement of staff, the routine administration of benefit and employment services, and an expanded regional presence. Those undesirable characteristics notwithstanding, leadership of the agency was clearly an attractive proposition to a chief executive who ‘relied on personal dynamism, high visibility, and a forceful style of leadership for the purposes of inspiring the employees for whom she was responsible’ (Goddard, 2001, p. 18).

9.4.2 the Big Picture

If it is patently unsafe to assume that officials are overwhelmingly inspired by bureau-shaping imperatives, it is equally dangerous to overlook the bearing which exogenous

variables have on processes of institutional reformation. Dunleavy's slate of positively- and negatively-valued work-related utilities is firmly in the rational choice tradition of focusing on 'self-regarding bureaucrats pursuing their own welfare' (Dunleavy, 1991, p. 201). That orientation usefully draws attention to the impact which goal-directed bureaucratic agency can have on structural change, but has the unfortunate (and misleading) effect of reducing exercises in institutional reform solely to considerations of bureaucratic instrumentality. In the process, the political context which enfolds the machinery of government sinks out of sight.

Dunleavy veers towards an acknowledgment of external drivers when assessing the factors which influence an official's choice of maximising strategy. Such a choice will be dependent upon:

... the rank of officials, and associated individual options for welfare maximisation; officials' net benefits from a program budget increment or a reorganisation increment; the type of agency in which bureaucrats work, its current organisational configuration, administrative technology, task structure and 'client' linkages; the potential for reshaping the bureau into an alternative agency type; and lastly the level of *environmental hostility* to budget increases or bureau reorganisations, which powerfully influences the relative probabilities of influence and advocacy costs ... for policy-level officials (Dunleavy, 1991, p. 258; emphasis added).

A role for the wider political milieu is hinted at here, but is not explored in detail, and the inference remains that bureau-shaping is a consequence of behaviour within the bureaucracy. This puzzling tendency 'to ignore politics' (Smith, 1998, p. 54) creates the most egregious shortcoming of explanatory capacity in the bureau-shaping model. For the purposes of this research, the observation that the model is 'strongly non-political in that ministers themselves and the political environment in which departments operate are largely absent' (Radcliffe, 1991, p. 41) pinpoints the one aspect of Dunleavy's work which, more than any other, prevents it from offering a genuinely comprehensive analysis of the Employment Strategy.

Some recent studies have partially addressed this feature of the original model. For instance, James acknowledges that officials 'are not free to choose any form of bureau organisation because politicians constrain them' (James, 1995, p. 618). For James, all bureau-shaping

occurs within an external constraint imposed by politicians on the relationship between the total amount of policy-work time available to officials, and the ratio of core budget to the number of senior officials employed in a department. Given the political risks which attach to bureaucratic mismanagement and/or outright delivery failure, James hypothesises that in agencies responsible for a large core budget, politicians will demand that officials spend more time managing the budget and less engaging in interesting policy work.

But even James infers that in the final instance decisions over organisational design reside with senior bureaucrats. In so doing he fails to fully account for the part played by ministers in establishing institutional parameters within the public service, the mix of agencies' functions, and the configuration of departments' overall budgets. In the Employment Strategy, that role was extremely influential. The task of theorising that contribution belongs in the next chapter, but the following observations are apposite to the generic point being made here. In a system of Cabinet government members of the political executive (and other politicians within the legislature):

- create bureau-shaping opportunities. Had the coalition's partners not formally agreed to design and implement an Employment Strategy there is no guarantee that the DSW or any other department would, of its own volition, have been able to foster the policy circumstances conducive to the advancement of its preferred institutional agenda;
- determine policy agendas and manage policy processes. Officials are enjoined to offer free, frank and fearless advice, but ministers are under no constitutional obligation to accept that advice. G5 was prepared to countenance significant departmental reform, but the political risks associated with some of the options put forward by officials (such as rendering the administration of welfare benefits truly contestable) were such that they were dismissed out of hand;
- take final decisions. Officials' input into the Employment Strategy was channelled through a series of institutional 'filters' within the political executive which incorporated a number of veto points. Ultimately, in a constitutional environment in which the role of public servants is to provide advice on and implement the policies of the government of the day, supreme executive authority resides in the Cabinet. Despite the views of officials, Cabinet did not permit structural integration to occur in the context of a Crown entity. That particular salutary experience demonstrates that while bureau-shaping strategies may be plotted in chief

executives' offices, there they are destined to remain unless they are endorsed by the Cabinet.

9.5 Conclusion

Having spent the better part of three chapters reviewing the theoretical and empirical merits of Patrick Dunleavy's model, there are three conclusions which can be drawn. First, its application to specific cases of bureaucratic reform will generate insights which other rational choice approaches cannot offer. The bureau-shaping model reveals a great deal regarding the process and outcomes of the Employment Strategy. It squares the preferences of the DSW's senior officials with the reduction in and reconfiguration of the agency's programme budget, and with a structural shake-up of considerable magnitude. It explains the formation of a smaller, policy-focused Ministry which had managed to relieve itself of its former service delivery responsibilities. It also accounts for the (futile) endorsement of a particular set of governance arrangements by the two chief departmental protagonists.

The second conclusion is suggested by the fact that the model possesses much less utility in the case of the DoL. It is that both the bureau-shaping model and rational choice generally remain in desperate need of a bureaucratic maximand based firmly upon a broader, more plausible behavioural postulate. The call issued by North and others (see section 5.2.1) has yet to be satisfactorily answered. The tradition continues to equate the exercising of choice with the maximisation of individual welfare, and so remains unable to accommodate the making of non-optimising choices (Sen, 1977, p. 329). In Dunleavy's case, this leads to the seemingly non-negotiable assumption that bureaucrats' choices are fundamentally driven by the desire to maximise agencies' approximation to an ideal-type (from which personal utilities accrue). In effect, his revised maximand precludes the genuine endogenisation of preference formation. While Dunleavy's bureaucrats' maximising strategies derive from particular institutional contexts, their preferences are assumed and attributed rather than queried and explained. They remain exogenised. The evidence, however, is that some officials (such as those in the DoL) are motivated to shape their departments in directions other than those suggested by Dunleavy's model. The preferences revealed therein are not captured by revised public choice, and its capacity to offer thorough explanations of the institutional effects of bureaucrats' endeavours will remain a contingent one until such time as it can incorporate into its rational egoist postulate a wider set of both self-regarding and other-regarding utilities.

Finally, the bureau-shaping account needs supplementation in order to cater for the influence of broader contextual variables on bureaucrats' motives, choices and actions. Achieving this degree of theoretical 'stretch' within a purely rational choice paradigm poses problems. Part of the heuristic appeal of rational choice is that it imputes to bureaucratic actors the ability to exercise influence over their immediate environs. Once that leverage (over, in Dunleavy's case, institutional design) is ceded to non-bureaucratic actors, however, the success of goal-directed bureaucratic conduct becomes contingent upon parameters determined by others. That significantly undermines the virtuous circle proposed by rational choice which immutably links individuals' motives, choices, actions and the consequences of those actions. In such circumstances the rational bureaucrat would be left with little incentive to engage in goal-directed maximising behaviour; in turn, that would strike rather a solid blow to one of the bureau-shaping model's central assumptions, which is that bureaucrats direct the outcomes of their actions.

To be fair, it may be that 'the real worth of rational choice models is not whether they correctly explain some particular outcome, but the questions they generate about it' (Dowding, 1994, p. 112). Dowding's reasoning on the levels at which rational choice explanations apply is worth briefly rehearsing here. He distinguishes between 'types' and 'tokens' (Dowding, 1994, p. 112); the former is a category, or class of event, while the latter is a specific example of an event. Thus, types consist of many tokens. Dowding argues that rational choice is used to best effect in explaining types of events, because a full explanation of any specific token (such as the Employment Strategy) requires a more detailed knowledge of 'the actual beliefs and desires of the participants' (Dowding, 1994, p. 113) than can be gained through the deductive structure of rational choice models.

If Dowding is correct, then its inability to account for particular facets of the Employment Strategy does not greatly detract from the overall utility of Dunleavy's model. In this respect there is some merit in proposing (as Blais and Dion did in chapter 4 regarding Niskanen's model) that Dunleavy's framework possesses both formal and informal aspects. Its formal incarnation contains strong and unequivocal assumptions from which clear propositions flow: bureaucratic utility is a function of institutional form, therefore bureau-shaping is the objective to which officials direct their energies. Conversely, in its informal manifestation it might accommodate an approach which is conditional and satisficing, rather than imperative and maximising. In this sense it may be enough to establish that most senior officials commit to bureau-shaping strategies most of the time. On occasion, however, bureaucrats will choose to behave in ways which are non-maximising, and thereby

reveal other-regarding motives. A conditional approach of that order could conceivably explain the actions of both the DSW and the DoL, whereas a 'hard' model would not cater for the latter.

Even that distinction, however, fails to address the crucial lesson to be taken from the Employment Strategy, which is that 'the broader political context constrains the options available to the civil servants and significantly constrains their ability independently to determine the shape of their bureaux' (Marsh *et al.*, 2000, p. 480). Dunleavy's relative silence on the role of politicians overstates the constitutional power of public servants, and understates that of elected representatives. That is perhaps a hallmark of rational choice institutionalism, which has been accused of blindness to 'the degree to which asymmetries of power vest some actors with more influence than others over the process of institutional creation' (Hall and Taylor, 1996, pp. 952-953). And yet, as Aberbach *et al.* note, the:

... norms of representative democracy ... endow elected politicians with a monopoly on one essential ingredient in policymaking - legitimacy as the final decision-making authority. However expert and imaginative a civil servant in substantive terms ... he [sic] needs endorsement from political leaders for his actions. Constitutionally, politicians are everywhere empowered to reject the counsel of bureaucrats, although such rejection is infrequent in practice (1981, p. 248; cited in Lynn, 1991, p. 77).

Political agency of that very nature was a vital ingredient in the Employment Strategy. Given the imperative of this research, which is to identify the determinants of a particular set of structural reforms, there is a pressing need for a method which will help model the contribution of external political influences to the Employment Strategy. Dunleavy's institutionalism does not offer the requisite instruments, but an alternative variant, historical institutionalism, does provide a pathway into the political. For that reason, the chapter which follows contains an assessment of the impact which the interplay between actors and institutions within the political executive had on the institutional course of the Employment Strategy.

Part 4

Chapter 10 - Putting politics back into the Employment Strategy

10.1 Introduction

In the bureau-shaping model institutional change occurs at the behest of public servants, and politicians are relatively passive participants in such processes. Between December 1996 and early 1998, however, the ministers charged with overseeing the Employment Strategy were anything but passive. Indeed, the author of a subsequent ministerial review into the operations of the Department of Work and Income unwittingly highlighted the principal shortcoming of Dunleavy's model by describing the department as 'the first institutional expression of coalition politics; the personal 'dream' of a senior member of one of the coalition partners which was redesigned to fit with the agenda of the other partner' (Hunn, 2000, p. 13).

Those comments focus attention once again on the question which drives this study: What determined the trajectory and outcomes of the institutional reforms effected by the Employment Strategy? The question, which has fundamentally to do with the location of executive authority, remains incompletely answered. A partial response (that senior bureaucrats drive bureaucratic change) is assumed in both the orthodox and revised rational choice models of bureaucracy. That position has merit, but it largely ignores the broader political realities of policy decision-making and therefore remains an unsatisfactory one.

The fourth and final Part of the thesis (chapters 10 and 11) addresses that central rational choice flaw, and demonstrates that the interventions of ministers, mediated by institutions within the political executive, were central to the outcomes of the Employment Strategy. This chapter advances and supports the case that, with regard to both the Employment Strategy and more generally, the institutional characteristics of the political executive are important variables in determining the direction and outcomes of political processes. It commences with a brief treatment of the scholarship on historical institutionalism. That literature furnishes the theoretical context for the subsequent analysis of the manner in which the core Employment Strategy debates were mediated through formal and informal mechanisms within the political executive. Functioning as constitutional 'pegs', the *ad hoc* ministerial group (G5), a Cabinet committee, and Cabinet itself delimited the institutional terrain on which ministers' preferences regarding organisational design were debated and

resolved. From time to time ministers did open windows of opportunity for aspiring bureau-shapers in the departments, but on occasion they also slammed them shut, demonstrating that a comprehensive analysis of bureaucratic reform must accommodate the contribution made by politicians.

10.2 Historical institutionalism

The new institutionalism is the theoretical expression of a renewed interest in a range of disciplines in the 'significance of institutional variables for explaining outcomes' (Thelen and Steinmo, 1992, p. 1).¹ It is driven by a concern to understand the 'rules of the [political] game and the [contours of the] playing field' (Thelen and Steinmo, 1992, p. 5), in addition to the ideological attributes and behaviours of the game's players themselves. Put differently, at the core of historical institutionalism is an interest in the complex ways in which '[c]onstitutions and political institutions, state structures, state/interest group relations, and policy networks all structure the political process' (Immergut, 1998, p. 17).

With one exception, the broad thrust of the various new institutionalist schools was canvassed in section 7.2 (and Dunleavy's own rational choice institutionalism dominated chapters 9 and 10). That content is not replicated here, but a clear sense of the approach taken within *historical* institutionalism is a necessary prerequisite to the central concerns of this chapter.

The term 'historical institutionalism' was coined by Skocpol (1985) to distinguish that variant from the rational choice institutionalism championed by Dunleavy and others (Thelen and Steinmo, 1992). The latter strand acknowledges the import of institutions, but grants primacy to the purposive conduct of individuals in determining political outcomes. The project of historical institutionalism, on the other hand, is to illuminate how political and policy processes are 'mediated by the institutional setting in which [they] take place' (Ikenberry, 1988, pp. 222-223; cited in Thelen and Steinmo, 1992, p. 2). Quite what constitutes an institution depends on 'the theoretical question of interest, the time scale posited, and the pragmatics of a research project' (Crawford and Ostrom, 1995, p. 582).

¹ While in its most recent incarnation the term is attributed to March and Olsen (Dowding, 1994), Immergut (1998) points out that the institutional tradition stretches as far back as Rousseau, who criticised Hobbes and Locke for their assumption that the behaviour of individuals in particular historical epochs revealed the 'natural' preferences and characteristics of all humans. More recently, it has drawn upon the sociological tradition (and in particular on aspects of the work of Max Weber) described in section 7.2.1.

For the purposes of this chapter Lowndes' three-part definition is adopted. For Lowndes, institutions:

- are 'meso' level fora which both impose constraints on and provide opportunities for human action;
- may take both concrete organisational and processual forms; and
- possess an innate legitimacy which extends beyond the instrumental purposes to which they are employed by individual actors (Lowndes, 1996, p. 182).

In the context of this research, Lowndes' definition requires a focus on both formal structures, including the relevant components of the Cabinet system (G5, the Cabinet Committee on Strategy and Priorities, and Cabinet), and the informal relationships between political actors which were played out within those intermediate institutions. It also encourages an explicit appreciation of the constraints that attached to decision-making within those formal arrangements (of which the imperatives associated with the convention of collective ministerial responsibility were an important feature of the Employment Strategy), and of the opportunities which accrued to those political actors sufficiently astute to employ the formal mechanisms to advance their own preferences. In short, the potential contribution of historical institutionalism to an understanding of the Strategy resides in its capacity to animate the 'interaction between institutions, interests and ideas' (Hall, 1992, p. 90).

The principal analytical characteristics of historical institutionalism include:

- an emphasis on the mid-range institutions which shape political strategies;
- the manner in which those institutions structure relations of political power; and
- a focus on the process of politics and policy-making within specific institutional parameters (Thelen and Steinmo, 1992, p. 7).

The concept of 'path dependency' is central to historical institutionalism. Historical institutionalists reject the presumption that history is 'efficient', and that political processes move 'rapidly to a unique solution, conditional on current environmental conditions, thus independent of the historical path' (March and Olsen, 1984, p. 737). Instead, path dependency suggests that specific outcomes will reflect the mediation of political action within particular institutional arrangements, themselves likely to have been substantially 'inherited from the past' (Hall and Taylor, 1996, p. 941). Historical institutionalists dispute the rational choice belief that the results of political processes can be predicted on the basis of actors' fixed preferences and an institutional 'map'; instead,

they contend that such outcomes can only be established through analyses which are sensitive to historical, case-specific institutional arrangements.

By accepting that 'existing institutions structure the field of vision of those contemplating institutional reform' (Hall and Taylor, 1996, p. 953), historical institutionalism encourages an exploration of the contribution of politicians to the Employment Strategy. In fact, it forces an assessment of the institutional distribution of power within that process. The DSW played a pivotal role in promoting certain organisational design options ahead of others, but control over the Employment Strategy rested with the political executive, not the department(s). Moreover, the preferences and contributions of ministers were manifest within a series of institutional 'filters', chief amongst which were G5, the Cabinet Committee on Strategy and Priorities, and Cabinet itself. Formal executive decisions were taken within the latter, while substantive policy deliberations occurred within the former two (and in particular within G5). The functioning of that set of structures does not signify that officials' bureau-shaping conduct was of no consequence to the outcomes of the Employment Strategy, but a thorough explanation of those outcomes must acknowledge what transpired within that institutional architecture.

10.3 Institutionalising the Employment Strategy

Given the real-world impacts of political decisions, March and Olsen's observation that 'the processes of politics may be more central than their outcomes' (1984, p. 742) is arguably an overstatement. The insight they offer, however, is that outcomes are constructed within an institutional environment which is itself an important determinant in shaping those results. That environment will influence the relative leverage exercised by political protagonists, determine the distribution of executive authority, and specify the location of institutional veto points; it is likely to also influence the mix of strategies employed by particular political actors.

In systems in which the legislative and executive branches of government are fused through a Cabinet (which must enjoy the confidence of the legislature), the political executive is a crucial feature of the wider institutional context. From an institutionalist point of view the executive is an aggregation of 'various sets of institutions' (Lowndes, 1996, p. 192). In the case of the Employment Strategy, the most important of these were Cabinet, the Cabinet Committee on Strategy and Priorities, and G5. Less formally, relations between the

coalition government's constituent partners, and between individual ministers, were also important ingredients in the institutional mix.

It is into this institutional realm that historical institutionalism provides the methodological 'bridge' missing from Dunleavy's model. It does so by facilitating an inductive engagement with the institutionally- and case-specific motives and behaviours of political actors. Rather than dismissing as irrelevant (as rational choice tends to) the self-reported explanations of historical actors for their conduct, historical institutionalism places considerable store by 'the meanings that ... actors attribute to their own actions' (Hall and Taylor, 1996, p. 954). And the subjective consensus among ministers was that the machinery changes which were an immediate consequence of the Employment Strategy reflected *their* preferences, leverage and decisions, not those of officials. As the coalition government's Minister of Finance put it, at points in the policy process at which ministers encountered what they took to be bureaucratic resistance they 'just banged [officials'] heads together and worked our way through those things' (Birch, interview, 1999).

10.3.1 government formation and the Coalition Agreement

Institutions are less 'things' than they are 'processes' which are codified more or less formally (Lowndes, 1996, p. 193). One of the defining features of institutions is the rules out of which they are constructed. Rules provide some certainty to political actors regarding the anticipated behaviour of others, and signal the consequences or sanctions which attach to unacceptable conduct. When the National, Labour and New Zealand First parties began their negotiations in October 1996, however, few formal rules existed regarding the process of government formation (see section 2.2). As a consequence, New Zealand's first experience of coalition formation in the post-MMP era was an iterative process which provided an initial set of institutional opportunities for shaping the coalition government's policy on employment.

One of those opportunities came in the form of the National/New Zealand First government's Coalition Agreement. As a small party (albeit one pivotal to all likely outcomes of the government formation process), New Zealand First vigorously fought for the construction of a detailed Coalition Agreement. Brian Donnelly has articulated his party's position on the matter, arguing that the Coalition Agreement 'was absolutely critical. You had to have that document, and you had to have it so that both parties would agree to any diversion from it' (Donnelly, interview, 1999). For Peter McCardle, too, a policy-specific Agreement was crucial to his aim of securing an executive commitment to

New Zealand First's employment policy. Indeed, his assessment is that the process of government formation in 1996 'provided powerful leverage', without which 'it wouldn't have happened, the whole integration and so forth' (McCardle, interview, 1998).

New Zealand First's success in extracting an agreement from the National party to its employment policy was no small achievement. However, that the eventual outcomes (both policy and structural) of the Employment Strategy diverged markedly from the party's original position strongly suggests that other political (and bureaucratic) actors grasped the institutional opportunity represented by the codification of that policy to promote quite different ends. The most telling observation to this effect is from the former Minister of Social Welfare, who wryly observes that the Strategy:

... was a bottom line as far as New Zealand First were concerned [and] we accepted it, but I think that if you look at what was in the Coalition Agreement on what we were going to do, and what we have done, it is substantially different. But again, the perception is that what we've done is what was in the Coalition Agreement (Sowry, interview, 1998).

Sowry's comments illustrate the part the Coalition Agreement played in legitimising the government's subsequent policy actions (see Lowndes' definition above). That function enabled Sowry and his departmental officials to pursue an agenda of policy and institutional change which was justified by the Agreement, but which in substance exceeded the contents of that document. Sowry is quite prepared to concede that 'in my area it stacked up really well, because if the Coalition Agreement had not said we're going to do even the little bit that it said, well, then we wouldn't have gone down this path' (Sowry, interview, 1998). The 'we' referred to by Sowry included his officials in the DSW. For the department, there is no question that the Coalition Agreement provided an opportunity to further its strategic vision, notwithstanding that the agency played no substantial role in its negotiation. As one senior official expressed it, 'if you have got an idea of a strategy, and where you want to go, you look for opportunities that arise that allow you to move on it. The Coalition Agreement provided an opportunity to make progress on [that strategy]' (interview, 1998).

In an instrumental sense, the pivotal opening for both Sowry and the DSW was provided by the brief reference in the Coalition Agreement to 'replacing the unemployment benefit with an equivalent community wage' (Coalition Agreement, 1997 p. 25). That phrase

legitimised a very comprehensive process of benefit reform, but as Roger Sowry points out, the Coalition Agreement itself:

... didn't mention anything about welfare reform, in terms of the benefit reform process that we've gone through. None of that was in the Coalition Agreement. But those major changes we got through, and you can argue quite strongly that the Coalition Agreement didn't hint at those. So, I don't think the template has hindered me in any way. I think I've been able to use it in some areas, and where it was silent, we've still been able to achieve quite a lot (Sowry, interview, 1998).

In turn, of course, the decision reached during that benefit reform process (to extend the Employment Strategy to all working-age beneficiaries) provided the rationale for sweeping structural change within the bureaucracy. Again, the scope of the institutional revisions agreed to by Cabinet on 15 December 1997 'was quite different from what we agreed on in the Coalition Agreement' (Sowry, interview, 1998). Sowry attributes this to the fact that he was able to invoke the Agreement while constructing the policy case required to convince his colleagues of the merits of structural reform. Indeed, he remains sceptical that full integration would have been achieved without the relevant provisions:

And if you'd wanted to achieve what we have done with Work and Income, and it wasn't in a Coalition Agreement? Even in a single party government, if I'd been the Minister of Social Welfare, and Nick Smith had been the Minister of Employment, we would not have achieved this (Sowry, interview, 1998).

10.3.2 G5

The Coalition Agreement may have provided the formal justification for the wide-ranging institutional reforms which flowed from the Employment Strategy, but G5 was the forum from which decisions regarding those changes first issued. The establishment and operation of the *ad hoc* group was an especially good illustration of the manner in which mid-range institutions can adapt to changing exogenous circumstances while retaining their core function of 'defin[ing] the channels and mechanisms by which new ideas are translated into policy' (Thelen and Steinmo, 1992, p. 24). G5 possessed no particular constitutional status as a decision-making organ; *ad hoc* collections of ministers are not included in the structure of Cabinet government codified in New Zealand's Cabinet Manual (see Cabinet Office,

2001a, pp. 42-51).² However, it acted as an institutional point of entry to the political executive, in which capacity it oversaw the detailed development of policy before specific proposals moved into the formal Cabinet and Cabinet committee edifice. In the opinion of Bill Birch:

... the process of bringing those various policy people around the table and debating with ministers, which went on for quite a long time, out of which emerged the Cabinet committee papers and so on, was a good quality process. It dealt with the tensions between the various officials, from the chief executives down. You can't blame officials for coming at it from different directions. There is a fair bit of patch protection that goes on, and ministers have just got to work their way through that to get the outcomes you are looking for (Birch, interview, 1999).

Within G5 the conflicting political and bureaucratic positions on the core debates were filtered, tussled with and crystallised by ministers. And precisely because it was situated at the interface between the political executive and the officials' community, G5 was arguably *the* crucial 'veto point' (Immergut, 1998) in the architecture through which the Employment Strategy passed. It was the first institutional juncture at which policy innovations would either gain impetus or be thwarted. Cabinet retained ultimate executive authority, of course, and there can be no suggestion whatsoever that it felt constrained by positions taken in lower order institutions. However, the substantive debates on policy, organisational design and governance were had prior to papers coming before Cabinet and its committees. In Bill Birch's terms, G5 was where ministers 'tested the advice very closely, and with a fair bit of determination' (Birch, interview, 1999).

G5 was, in fact, created for the express purposes of rationalising policy development across several large projects (the Employment Strategy, the Benefit Reform process and the Strengthening Families project). One senior official has summarised G5's role as one of:

... pre-digesting all of the issues, and forming tentative conclusions before the issue went to Cabinet. Then, when it went to a Cabinet committee and then to Cabinet, at least those ministers would be well informed with the

² There is a single reference to *ad hoc* groups, which states that '[d]ecisions taken by Ministers at *ad hoc* meetings ... need to be referred through the Cabinet process if they concern matters that would usually be considered by Cabinet' (Cabinet Office, 2001a, p. 46).

issues, and would be able to guide the others, because there was a hell of a lot of paper, and it would have been hard for ministers generally to get hold of the issues (interview, 1998).

The informational advantages which G5 enjoyed relative to the wider executive granted it a considerable strategic advantage in policy debates (see section 3.2.1). As Roger Sowry has remarked, G5's functioning meant that 'things had been well teased out before they got to the Cabinet committee and to Cabinet' (Sowry, interview, 1998). Clearly, that reduced the risks and inefficiencies associated with completing 'a whole lot of work under a minister and find[ing] that there was opposition that stopped progress at Cabinet' (McCardle, interview, 1998). Instead, if the *ad hoc* group could negotiate a collective position on a given policy issue, that stance stood a strong chance of being endorsed by the Cabinet Committee on Strategy and Priorities and Cabinet.

Early in the process the Minister of Social Welfare identified this as an opportunity to promote a range of institutional and policy reform initiatives which might otherwise have floundered for want of broader support within the government. At the time G5 was established, Roger Sowry:

... had work going on in a range of welfare reforms. Increasing work-testing, the changes to Domestic Purposes benefit, all that sort of thing. I started to feed those papers into the Cabinet committee, and after two attempts found that it was just hopeless. Couldn't get them through, because everyone's got a view on welfare, I tell you. It is not a good portfolio to have if you want to get things through in a hurry. Then I started using G5 for those papers, and I found once they had been through G5 I could get them through the Cabinet committee, because I had a sign-off from a group. G5 was never established for the welfare reform process, but very quickly I started to use it for that, and very quickly it just became normal that that's what it was there to do (Sowry, interview, 1998).

The leverage which G5 provided Sowry during the Cabinet committee stage (see below) derived from a number of sources. First, G5's membership comprised just under 50% of the membership of the Cabinet Committee on Strategy and Priorities, and as such constituted a

significant bloc within the committee.³ Secondly, the Deputy Prime Minister and Treasurer, Winston Peters, and the Minister of Finance, Bill Birch, sat on both G5 and the Cabinet Committee on Strategy and Priorities, lending considerable political weight to positions taken within the latter by G5 members. In particular, as a senior and highly respected member of the government the support extended by Bill Birch was an important ingredient in the Cabinet committee's agreement with G5's recommendations on institutional reform.

The other members of G5 were certainly alert to Sowry's strategy. Brian Donnelly remembers that G5 'started off, and the next thing we were getting a whole lot of papers on a whole lot of other things that people had not originally conceived would be absorbed into this particular project' (Donnelly, interview, 1999). The Minister of Employment himself recalls that 'very early on Mr Sowry and Social Welfare developed parallel streams of work to come under the consideration of G5' (McCardle, interview, 1998). But the fact that the 'other ministers thought it was an appropriate place to go through' (Sowry, interview, 1998) allowed the Minister of Social Welfare (and his officials) to modify G5's work programme such that what began as an Employment Strategy rapidly became dominated by the imperatives of Roger Sowry's Benefit Reform strategy.

The risks which this change in focus posed to the original objectives of the Employment Strategy were pointed out to the Minister of Employment. Alf Kirk, for instance, recalls becoming alert to the fact that:

... what had been three strands of work became one, and that was quite crucial to what then happened. Again, I think we alerted McCardle at the time, saying 'Hang on, there is an agenda here about welfare change which is going to swamp you'. But, oh no, he was a minister, and we'd see, he was going to keep that focus on employment. But he was unaware of the fact that part way through the agenda had changed and had been taken over. Basically, what was an Employment Strategy became a Welfare Strategy (Kirk, interview, 1998).

³ Roger Sowry was the sole member of G5 who was not on the Cabinet Committee on Strategy and Priorities. In addition to the ten members of the Cabinet committee, however, up to six other ministers would often be in attendance at critical meetings. Both Sowry and Brian Donnelly, who was a regular attendee at G5 meetings, were present at the 10 December 1997 meeting at which the committee's members agreed to recommend full structural integration to the full Cabinet (Cabinet Office, 1997b).

Sowry's astute use of G5 bears out the argument that 'people fight about both institutions and policy outcomes' precisely because 'broad policy paths can follow from institutional choices' (Thelen and Steinmo, 1992, p. 22). It also provides a graphic demonstration of the fashion in which institutions function as sites of contestation in which political actors strive to gain ideational supremacy. That G5 was the first in a series of three institutional veto points influenced the strategic approach taken by the various protagonists to the group's work. Carrying the day in G5 was pivotal, and the struggles that took place therein over the four key debates had far-reaching ramifications for the design and implementation of the Employment Strategy. It is likely that the same or similar outcomes would not have obtained had G5 not functioned in the fashion it did at the boundary between the administrative and political wings of the executive branch. Roger Sowry firmly believes that 'we would not have been able to do the reforms that we've done, which are substantial, without G5. I often use the term radical, but, I mean, they are huge reforms. But we couldn't have got them through the Cabinet' (Sowry, interview, 1998). In the event, as a consequence of the critical mass generated by the group, each of the major decisions taken by Cabinet on matters of institutional reform was consistent with the collective assessment of the G5 ministers. And with the exception of that regarding governance arrangements, each of the decisions taken within G5 on matters of organisational design reflected the preferences of Roger Sowry and the DSW.

10.3.3 Cabinet committees

Before reaching Cabinet, however, those issues had first to pass through the Cabinet Committee on Strategy and Priorities. The contemporary Cabinet committee system in New Zealand dates from the 1950s (McLeay 1995), and provides pre-Cabinet fora in which thorough consideration is given to issues prior to Cabinet. Cabinet remains the forum in which 'significant decisions or actions taken by the executive are ... collectively agreed' (Cabinet Office, 2001a, p. 42), but it is rare for any policy matter of moment to be brought to the full Cabinet without having first been scrutinised in a Cabinet committee. It is typically in committees such as the Cabinet Committee on Strategy and Priorities, rather than in Cabinet, that the parameters of policy are shaped, and 'differing perspectives on both the problem and its possible solutions' (Murdoch, 1999, p. 18) are surfaced.

The committee system provides strong incentives for political (and bureaucratic) actors to resolve policy differences. That point has been lucidly described by a former senior official, who has explained that the policy process within the political executive:

... is usually bounded by a decision-making apparatus, the Cabinet committee system, which in New Zealand, unlike other places, is very active and very open. Officials and ministers engage at the Cabinet committee level in a relatively free way. So the potential for polarisation to occur and not be resolved almost inevitably reaches a limit, largely because the decision is going to go into the Cabinet committee system (interview, 1998).

The principal institutional effect stemming from this function is that an initiative stands little chance of progressing if it fails the tests posed by a Cabinet committee. In this respect, during the Employment Strategy the Cabinet Committee on Strategy and Priorities functioned as the second significant institutional veto point within the political executive. In effect, it 'provided that formal setting in which you made sure that you'd done it right, and that everybody was signed up to it' (official, interview, 1998). That imposed upon ministers (including but extending beyond the members of G5) clear decision-making thresholds. In particular, it required the negotiation of such policy 'space' as existed between them on the various issues. Much of that work had been undertaken within G5, but in the Cabinet committee the *ad hoc* group's proposals were exposed to a wider ministerial audience. Broad-ranging consultation amongst ministers and departments was therefore a feature of the committee stage. As Roger Sowry has pointed out (somewhat wistfully):

... the system ensures that departments are consulted, so that even if a minister wants to miss out a department, which would be nice from time to time, you are not allowed to. Or, if you get a paper up to the Cabinet committee without [other stakeholders] being consulted it gets kicked away (Sowry, interview, 1998).

Sowry's admission that he was unable to make significant progress on benefit reform prior to the establishment of G5 testifies to the effectiveness with which the Cabinet committee functioned as a veto point. The Minister of Social Welfare twice attempted to promote a package of reforms within the committee. On both occasions he failed to gain policy traction, at which point he began using G5 as a vehicle for promoting his proposals within the Cabinet Committee on Strategy and Priorities (Sowry, interview, 1998). It remained the case, however, that formal policy recommendations were routed to Cabinet through the committee, for which reason G5's members were required to convince its members of the merits of the initiatives they advanced. Notwithstanding the strategic advantage which accrued through G5's corporate position within the committee, the outcomes of those

debates were not predetermined. There are indications, for instance, that the *ad hoc* group's recommendation in favour of structural integration met with resistance from other members of the administration. Thus, Roger Sowry can 'remember vividly the day that the Cabinet committee signed off on the stand-alone department at a fairly robust meeting' (Sowry, interview, 1998). The pivotal contribution made by the Cabinet Committee on Strategy and Priorities in shaping policy outcomes was also demonstrated when it provided the forum in which the debate over governance arrangements, which G5 had been unable to resolve, was decided (see section 3.3.4).

Sir Geoffrey Palmer has concluded that under conditions of multi-party government, Cabinet committees have become more exacting. In circumstances increasingly characterised by 'more meetings of more Cabinet committees for longer' he believes that ministers' policy papers are 'being subjected to much more questioning and analysis' than used to be the case (Palmer, interview, 1998). The former Prime Minister's comments suggest that in a coalition government Cabinet committees assume heightened significance as decision-shaping fora. In institutional terms, they have become even more important as policy 'clearing houses' in which the minutiae of differences between an administration's coalition partners can be resolved, such that Cabinet is left free to focus on high-level, strategic decision-taking. For all that it was central to the institutional outcomes of the Employment Strategy, G5's advocacy would have counted for nothing had its members been unable to convince the Cabinet Committee on Strategy and Priorities of the advantages of wide-ranging institutional reform. The fact that they did allowed Roger Sowry to conclude that:

... for me personally the victory was getting, firstly, a sign-up from Peter [McCardle] to a true one-stop shop, and then the next victory was getting that through the Cabinet committee. Once it went through the Cabinet committee I knew we were going to win it at the Cabinet table (Sowry, interview, 1998).

10.3.4 Cabinet

As pre-Cabinet institutions both G5 and the Cabinet committee served important purposes, but in New Zealand it is the Cabinet which is the 'black box' of government (McLeay, 1995, p. 1). The executive prerogatives of the Cabinet, which are based upon constitutional convention, exceed those of any other organ within the political executive. Cabinet is 'the central decision-making body of executive government', the forum to which ministers must

bring all legislative proposals, matters concerning the machinery of government, controversial issues, and significant policy concerns (Cabinet Office, 2001a, pp. 42-43).

The operation of the three principles which inform Cabinet decision-making (consultation, confidentiality and collective responsibility) exemplifies the manner in which institutional rules shape policy outcomes. Rules are central to new institutionalist analyses, for they 'guide and constrain action by providing information on the probable future behaviour of others and on the nature of sanctions for non-compliance' (Knight, 1992, p. 17; cited in Lowndes, 1996, p. 193). In so doing rules structure relations of power between different political actors, ascribe legitimacy to some decision-taking institutions (but not to others), and establish hierarchies of authority. As a consequence, they determine the extent to which actors can optimise preferred outcomes. The *ceteris paribus* assumption does not apply in complex institutional architectures; all other things tend to be neither equal nor in states of constant equilibria, and therefore individuals' behaviour is predicated on an 'interpretation of a situation rather than purely on instrumental calculation' (Hall and Taylor, 1996, p. 939).

The collective responsibility 'rule' is particularly important in structuring the power wielded by Cabinet, and provides an especially good example of the manner in which institutions derive their authority from 'a common understanding that actions inconsistent with those that are proscribed or required are likely to be sanctioned or rendered ineffective if actors with the authority to impose punishment are informed about them' (Crawford and Ostrom, 1995, p. 583). In the context of responsible government, Cabinet's political leverage stems from the conventional acceptance that 'the House [of Representatives] expresses its confidence in the collective whole of government, rather than in individual Ministers' (Cabinet Office, 2001a, p. 44). Moreover, the Governor General, 'in acting on ministerial advice, needs to be confident that individual Ministers represent official government policy' (Cabinet Office, 2001a, p. 44). Put differently, the collective endorsement of Cabinet must be secured before a *minister's* policy preferences are formally adopted as *government* policy. Furthermore, irrespective of Cabinet's acceptance or rejection of new policy initiatives, and no other institution can exercise that prerogative, it is clearly understood that ministers must submit to the disciplines associated with collective responsibility, and that failure to do so invites the application of a series of clearly specified sanctions (see Cabinet Office, 2001a, pp. 44-45). In terms of equilibrium theory, then, the shared understandings, procedures and sanctions associated with collective responsibility

constitute a means of formalising the ‘decisive coalition of agents’ (Shepsle, 1989, p. 136) required to establish a structure-induced equilibrium outcome or resolution.⁴

In politics, of course, outcomes tend to be temporary rather than durable, and the National/New Zealand First government’s twenty-month term in office provided one salutary example of the manner in which institutional innovation can create contests over the legitimacy of different institutional instruments. During the coalition negotiations in late 1996 there was some suggestion that New Zealand First would not accept the collective responsibility provisions contained in the (then) Cabinet Office Manual (although in the event the contents of the Manual were endorsed at the first meeting of the coalition Cabinet). The party’s concern, which was to rear up with a vengeance, was that if ‘things can be put to the vote [in Cabinet] and the majority vote along party lines, and then require the ministers of the minority party to demonstrate collective responsibility, then obviously the minority party is potential dog tucker’ (Donnelly, interview, 1999).

Just how critical institutional rules, and the struggles over them, are to political outcomes was graphically demonstrated on 12 August 1998, when the five New Zealand First ministers walked out of a Cabinet meeting called to discuss the disposal of the Crown’s 66% shareholding in Wellington International Airport Ltd. (Cabinet Office, 1998b). At the time the ministers withdrew from the meeting, five of the meeting’s agenda items had been attended to; following their departure, the final two issues were resolved (Cabinet Office, 1998c). In the aftermath of the walk-out New Zealand First insisted that those two decisions were void. The party’s rationale was that once its own ministers had ‘walked out there was no quorum, because the coalition document actually stated that the quorum in Cabinet would be 50% of the members of each party. So there was no quorum. According to the Coalition Agreement Cabinet was no longer in effect’ (Donnelly, interview, 1999). And if Cabinet was no longer in effect, then collective responsibility could not be said to apply.⁵

⁴ An outcome is said to be in structure-induced equilibrium if there exists no other alternative ‘allowed by the rules of procedure [and] preferred by all individuals, structural units, and coalitions that possess distinctive veto or voting power’ (Shepsle, 1989, p. 137).

⁵ The relevant provision from the Coalition Agreement, section 7.3 d (x), stated that a ‘quorum of Cabinet [is] to be at least one half of each Coalition partner’s appointees to inside Cabinet Ministerial positions’ (Coalition Agreement, 1997, p. 8). The tension was set up by the specification, in the parent section, that the government’s ministers were to ‘comply with the requirements of the Cabinet Office Manual (August 1996) and ... will accept the conventions of Cabinet responsibility’ (Coalition Agreement, 1997, p. 8).

The provisions of the Cabinet Office Manual, on the other hand, specified that a quorum for Cabinet meetings was half the full membership of the Cabinet plus one (Cabinet Office, 1998c, p. 2). That threshold did not distinguish between a government's constituent partners, and was not affected by the departure of the five New Zealand First ministers. Accordingly, having sought the advice of the Secretary to the Cabinet and the Solicitor-General, Cabinet 'satisfied itself ... that this condition had been met and that it had the authority [to make] the decisions' it had taken subsequent to the withdrawal of New Zealand First's ministers (Cabinet Office, 1998c, p. 2).

Not surprisingly, the junior coalition partner railed against the privileging of the Cabinet Office Manual over the Coalition Agreement. The party's leader remains adamant that the National party:

... had signed a Coalition Agreement which they said was pre-eminent over the Cabinet Office Manual. There was a specific clause [which specified that] where there was a conflict the Coalition Agreement will prevail. Having signed that, they reneged on it. In fact, if I had known that they had any intention of doing that, I would have made a constitutional change, and running off to the Governor General would not have been a solution for them (Peters, interview, 1999).

The episode was resolved with the formal termination of the coalition on 18 August 1998 (see section 2.2.1). Its more general effect was the assertion of the primacy of long-standing constitutional conventions (and their repositories) over more recent institutional innovations (such as agreements between coalition partners). More significantly still, amongst other things those events demonstrated the function which institutional rules regarding collective responsibility are designed to fulfil in systems of Cabinet government.⁶ If constitutional conventions are the 'glue' of largely unwritten constitutions, then collective responsibility provides much of the adhesion. For notwithstanding that under coalition conditions 'government has to conduct complex negotiations with itself in order

⁶ Those rules were revised following the formation of the Labour/Alliance minority administration in late 1999, and codified in both the current Coalition Agreement and the most recent edition of the Cabinet Manual. The relevant provisions permit coalition governments to establish 'agree to disagree' processes, which allow ministers from the constituent partners to publicly disagree on particular issues or policies. However, once any such issue has been resolved (in Cabinet or through any other agreed process), all ministers must 'implement the resulting decision or legislation, regardless of their position throughout the decision-making process' (Cabinet Office, 2001a, p. 45). In a revised form, the fundamental discipline of collective responsibility continues to apply.

to decide what its policy is [a government] can only have one policy at one time, and all persons in the government must defend it' (Palmer, interview, 1998). Much the same point has been made with direct reference to the National/New Zealand First coalition by that government's Minister of Education, who accepts that 'the minority and the majority have both got to be able to get their bit through, but you can't just say: 'I'm going to veto everything I don't agree with', because then it stops being a government' (Creech, interview, 1998).

The fracas which led to the implosion of the coalition government resulted in revisions to, but not a fundamental overhaul of the rules which wrap about Cabinet processes. The aggregation of those institutional rules of the game still elevates Cabinet to the pinnacle of the various institutions which collectively constitute the political executive. Cabinet remains the institutional veto point *par excellence*, and in the Employment Strategy posed the final barrier past which the policy positions developed amongst officials, debated within G5 and stewarded through the Cabinet committee had to pass before assuming the status of government policy. This most fundamental tenet of responsible government dictated that none of the various recommendations regarding the target audience for the Strategy, the nature and location of institutional integration, and the governance arrangements which were to apply to the integrated agency could be acted upon until ratified by Cabinet. In the final instance, the decisions which led to the demise of the DSW, and the creation of the Department of Work and Income, the Department of Child, Youth and Family Services, and the Ministry of Social Policy were political rather than bureaucratic.

10.4 Mobilising bias - master or servant?

A leading new institutionalist scholar has observed that political 'organisation is the mobilisation of bias' (Steinmo, 1993, p. 7; cited in Hall and Taylor, 1996, p. 940). Steinmo's point is that institutional arrangements influence the distribution of power, such that at any given point in time, and at different institutional junctures, some protagonists possess more power than others. This chapter has drawn on these and other insights from historical institutionalism in an assessment of the significance of the part played by the political executive in the bureaucratic reforms which flowed from the Employment Strategy. On the basis of the evidence marshalled here, it is difficult to deny the import of that contribution. Considered collectively, G5, the Cabinet Committee on Strategy and Priorities, and Cabinet constituted an institutional grid which bound the agency of ministers and officials by specifying three veto points at which those actors were required to defend

their policy proposals. That this institutional matrix acted as the final arbiter of the policy process has been emphasised by the former Minister of Employment, who has made it clear that ‘officials bashed [policy] out in front of G5 ministers, and then through Cabinet committees, and then through Cabinet. But at any of those levels things [could] change if they didn’t stack up to scrutiny’ (McCardle, interview, 1998).

Historical institutionalism offers a powerful rejoinder to the silence in the bureau-shaping model on matters political, yet any suggestion that conduct motivated by strategic concerns was of little consequence to the outcomes of the Employment Strategy would justifiably invite accusations of institutional determinism. Historical institutionalists themselves accept that while institutions channel political conduct, the outcomes they mediate stem from interactions between political and bureaucratic protagonists who subscribe to particular views and preferences. Institutional configurations wrap constraints around goal-directed behaviour, but also provide opportunities for actors to realise their aspirations for institutional and policy change.

In this respect, systems of responsible Cabinet government have been singled out as ‘systematically biased in favour of change’ (Hall, 1992, p. 107). Institutions do not change themselves, of course; rather, in jurisdictions in which a single party or coalition enjoys the confidence of the legislature, Cabinets can effect institutional and policy reform rapidly and with relative impunity. Opposition parties have incentives to provide clear policy alternatives to the government, and on taking office similarly enjoy the institutional latitude to implement their own reforms. That dynamic is amplified in New Zealand’s case, where the centralisation of executive power and the absence of the institutional checks and balances which characterise other advanced democracies (entrenched constitutions, bi-cameral legislatures, extensive rights of judicial review, the separation of legislative and executive powers) encourages the implementation of ‘strong’ policy positions, rather than the adoption of negotiated or ‘diluted’ pathways typical of environments in which the institutional arrangements demand compromise.

In such circumstances it can be difficult to distinguish the relative influence of bureaucrats and ministers on policy outcomes. In the Employment Strategy the principal institutional filters were located in the political executive, but that did not *ipso facto* detract from bureaucrats’ capacity to influence the policy substance which percolated through those arrangements. For instance, given his institutional location the sponsorship of the Minister of Social Welfare was always going to be crucial to obtaining Cabinet’s support for targeting

all working-age beneficiaries (which was pivotal to the machinery changes which ensued). It is equally clear, however, that Roger Sowry's own position on that issue reflected a considerable investment on the part of the DSW. In this regard, in the view of one of the department's senior officials the timing of the DSW's 'Beyond Dependency Conference' was no accident (see section 3.3.1), inasmuch as Sowry had:

... basically only just become minister, and suddenly he had the conference on top of him. So I think that, like any new incoming minister, Sowry wanted a period of time before he was comfortable with those sorts of things. However, he quickly accepted the idea that the Employment Strategy must have a broader focus across all working-age beneficiaries (official, interview, 1998).

That observation hints at the contribution bureaucrats made to the Employment Strategy, but it also reinforces the point that the support of the Minister was fundamental to the realisation of the department's preferences. Convincing Sowry of the need to adopt a 'broader focus' was a critical milestone in the DSW's strategic game, precisely because that policy innovation (and the organisational changes it presaged) would not be legitimised until it had been accorded the imprimatur of Cabinet.

The signal lesson to be drawn from this assessment of the Employment Strategy is that, contrary to the conclusions reached by rational choice institutionalism, the bureau-shaping path was cluttered with institutional obstacles which quarantined executive authority from the influence of even the most senior officials. Furthermore, through the bounded environment demarcated by three intermediate level institutions flowed a series of constitutional conventions which enforced the subordination of bureaucrats' leverage to the executive prerogatives of ministers. In addition to the collective responsibility provisions discussed above, amongst these was numbered the conventional understanding that public servants advise on and implement, but do not decide, the policies of the government of the day.

There is much to recommend an analysis of bureaucratic reform undertaken through the lens of historical institutionalism. For even a '[c]asual observation of real-world politics suggests, among other things, that politicians and governments are not the passive creatures implied by the demand theorists of public choice' (Mitchell, 1983; cited in McCool, 1995, p. 127). Dunleavy's model offers a supply-side explanation of bureaucracy, but Mitchell's

point is germane nonetheless. A bureau-shaping analysis is blind to the active oversight exercised by ministers throughout the Employment Strategy. It provides few means of tracing either the evolution of the relationship between Roger Sowry and Peter McCardle, or the manner in which the former was able to utilise his familiarity with executive institutions to such good effect. Historical institutionalism, on the other hand, offers theoretical pathways into each of these because it can accommodate the capacity of politicians to largely determine their own fates and to influence those of public servants (Mitchell, 1983; cited in McCool, 1995, p. 127). That precisely describes what occurred throughout the Employment Strategy as, one after another, Cabinet deliberated on proposals which had bubbled up from lower-order bureaucratic and political institutions. The institutional course of the Strategy was charted by Cabinet on 15 September 1997 (when it endorsed the wider target population), 15 December 1997 (when it decided in favour of structural integration and the creation of a stand-alone agency) and 9 February 1998 (on which date it expressed a preference for an integrated government department). In the end, as Alf Kirk has remarked, 'the Employment Strategy was the only thing that [was] left of the big issues [New Zealand First] were for, rather than against, so it had to happen. I think that was Prime Minister Shipley's view as well, that it had to happen, because it would hold the coalition together' (Kirk, interview, 1998).

10.5 The final nail - from Work and Income to Social Development

Dunleavy may be guilty of assuming that 'bureaucracies are more powerful than they really are', when in fact the external political environment can 'terminate Dunleavy's 'bureau-shaping' activity as readily as it can Niskanen's expansionist theory' (Tullock, 1993b, p. 181). Devastating empirical evidence to that effect emerged from a meeting of the current Labour/Alliance Cabinet on 9 April 2001, at which ministers decided to merge the Department of Work and Income and the Ministry of Social Policy, and to form a new Ministry of Social Development.

The Labour/Alliance government was formed on 6 December 1999, nine days after New Zealand's second MMP election.⁷ The current administration's policy on social security

⁷ There were striking differences between the process of government formation in 1999, and that which had taken place in 1996 (described in section 2.2). A government was formed within nine days of the election, rather than the several weeks it had taken three years earlier, and the Coalition Agreement reached between the Labour and Alliance parties is a brief, one page document which focuses on political processes and broad principles, rather than on policy detail. See Boston *et al.* (2000) for commentaries on the 1999 election.

and income support differs in key respects to that prosecuted by the former National/New Zealand First coalition (described in sections 3.3.1 and 3.4).⁸ Most notably, the *Social Security Amendment Act* 2001 has abolished the Community Wage, reinstated separate Unemployment and Sickness benefits, and removed the mandatory requirement that work-tested beneficiaries undertake community work. In addition, in the interests of generating empirically grounded policy advice, it is more sympathetic to closer institutional ties between policy and delivery agencies than was its predecessor.

Those imperatives informed the 9 April announcement. Arrived at only three years after the creation of the Department of Work and Income, and twenty four months following the formation of the Ministry of Social Policy, the decision substantially unwound the slate of institutional changes which had been established through the Employment Strategy. There were several features of that outcome which were of considerable intrinsic interest. Many of these lay beyond the scope of this study, but one was utterly apposite to its central concerns.⁹ It derived from the government's wish to refocus 'the Department of Work and Income [as] the Government's primary adviser on strategic and cross-sectoral social *policy*, as well as continuing to *deliver* income support and other social services' (Cabinet Office, 2001b, p. 1; emphasis added). The structural solution proposed by Cabinet on the basis of that preference was a significant departure from the orthodox preference for single-purpose departments, and offended against virtually every tenet of the bureau-shaping model. First, the new Ministry of Social Development represents the structural re-connection of a small, élite policy organisation with a very substantial delivery department. Prior to the merger there were 183 full time equivalent staff employed in the Ministry of Social Policy, and 5,025 in the Department of Work and Income (NZPD, Supplement 1, 2001, pp. 172-173). Thus, while the new entity is called a 'Ministry', which in the New Zealand context connotes a policy orientation, its orientation is overwhelmingly operational. From the point of view of those former DSW officials who sought the establishment of the Ministry of Social Policy, the amalgamation has shattered the preferred agency configuration which

⁸ The principles which inform that policy are enunciated in *Pathways to Opportunity* (Maharey, 2001), released by the Minister of Social Services and Employment in June 2001. The document can be viewed online at www.executive.govt.nz/minister/clark/pathways.

⁹ For instance, although the administration endeavoured to separate the two issues, there was a lingering sense in the minds of some that the merger was an attempt to remove the chief executive of the Department of Work and Income, Christine Rankin. The State Services Commissioner had chosen not to renew Ms. Rankin's three year contract, which lapsed on 5 July 2001. Ms. Rankin subsequently took a case against the Crown to the Employment Court, alleging political interference in the Commissioner's decision, and claiming amongst other things that she had been given to believe that her contract would be renewed on expiry. Ms. Rankin's case was unsuccessful (see Goddard, 2001).

they were able to enjoy for only a short, glorious period of institutional independence. For the better part of fifteen years the separation of policy from operations provided New Zealand officials with the perfect bureau-shaping instrument, but the recent rediscovery of the merits of the sectoral model has, in this instance, resulted in a departmental profile which represents a regression from, not a progression towards Dunleavy's agency ideal-type. From a bureau-shaping point of view, there is tremendous irony in the fact that, having successfully shed the administration of income support and child protection services to other departments, senior Ministry of Social Policy officials were allowed to enjoy the institutional fruits of their labours for such a brief period before being absorbed (back) into a new department dominated by delivery responsibilities.

Secondly, even through the new Ministry of Social Development does not (yet) encompass the tasks undertaken by the Department of Child, Youth and Family Services, its budgetary and functional profile bears a strong resemblance to the arrangements which had applied in the former DSW.¹⁰ This dissertation was completed a matter of weeks after the agency came into existence on 1 October 2001, and so no precise budget data are available, but there is no doubt that, because it captures the administration of income support *and* employment services, the absolute size of the new agency's bureau budget and programme budget will be far in excess of that which characterised the Ministry of Social Policy. In addition, while it has been tasked with developing a strong policy capacity, the Ministry of Social Development also executes a plethora of the rule-bound and routine administrative tasks which are anathema to any self-respecting bureau-shaping public servant with a strong preference for policy work. For that reason, the amount of time senior officials will be required to dedicate to the management of the agency's delivery responsibilities will dramatically erode their ability to invest in more desirable policy activities.

Thirdly, in what is perhaps the most compelling evidence against the predictive ability of the bureau-shaping model, the documentation indicates that the decision to establish the Ministry of Social Development was taken by ministers without any recourse to advice from officials.¹¹ Part of the purpose of chapter 3 of this thesis was to portray the substantive and procedural nature of the engagement between ministers and officials prior to the original decision to create the Department of Work and Income. Two years later,

¹⁰ In an earlier initiative, the government had removed the Community Employment Group from the Department of Work and Income and returned it to the Department of Labour in the year 2000/01.

¹¹ The papers were released under the provisions of the *Official Information Act* 1982 on 12 April, 18 April and 19 April 2001.

not a single paper regarding the merits of creating the new Ministry of Social Development was requested from officials in the two affected agencies. That said, the Prime Minister did seek the views of the State Services Commissioner on the 'future of the Ministry of Social Policy and the possibility of amalgamation with the Department of Work and Income' (Wintringham, 2000b, p. 1). The Commissioner duly identified a series of risks associated with the proposal, including the possibility that 'the best Ministry of Social Policy policy advisors ... may not view transfer into [the new] department as career enhancing' (Wintringham, 2000b, p. 3), and cautiously accepted that the institutional re-combination of policy and operations could generate a more symbiotic relationship between the two. There is no evidence, however, that the 9 April decision reflected the preferences and intentions of officials. The rational actor basis on which the bureau-shaping model rests generates the assumption that institutional refurbishments of any significance are driven by suitably motivated bureaucrats. In this case, not only did ministers assert their prerogative to determine policy decisions, it seems that they did not even bother to seek the advice of their officials before so doing.

10.6 Conclusion

Cabinet's decision to undo the machinery of government changes which were the legacy of the Employment Strategy, and with which so much of this thesis has been concerned, constitutes a powerful rejoinder to Dunleavy's bureau-shaping model. It unequivocally demonstrates that organisational reform in the public service is *not* the exclusive preserve of maximising bureaucrats, and that it is folly to ignore the role of ministers in processes of institutional change. Both the structure of the change decided on 9 April (the institutional coupling of policy and delivery), and the nature of the decision-making process itself (from which officials were excluded) confirm the flaws in the bureau-shaping model to which the previous chapter drew attention. In so doing, those events have the reverse effect of reinforcing the historical institutionalist principle that a comprehensive understanding of the outcomes of policy processes may incorporate the strategic motives of political actors, but will certainly extend past such considerations and encompass the institutional environs within which those principals interact.

Even if the Labour/Alliance government had opted to remain with the institutional *status quo* inherited from its predecessor, the core premise of historical institutionalism would have applied to the Employment Strategy. This chapter has sought to establish whether or not the institutional composition of the political executive was an important variable in

determining the direction and outcomes of the Employment Strategy. The application of a historical institutionalist orientation to the empirical record manifestly indicates that it was. Two distinct and important points can be taken from that conclusion. First, it is demonstrably the case that politicians *do* matter to the resolution of political processes. Dunleavy's model fudges that issue, but Roger Sowry, Peter McCardle, and the other members of G5, the Cabinet Committee on Strategy and Priorities, and Cabinet injected themselves into the Employment Strategy (and, indeed, into the process of government formation) at times and in ways which fundamentally shaped its course.

Secondly, the institutional fabric of the political executive also matters. Ministers acting either individually and/or collectively are clearly important, but so too are the institutional contexts within which they operate. Throughout the Employment Strategy three veto points within the political executive set out the institutional parameters within which the coalition government exercised its executive authority. Within each vigorous debates took place regarding policy and organisational design which led to the outcomes described in chapter 3. However, those issues might conceivably have been resolved in quite different directions. In other words, G5, the Cabinet Committee on Strategy and Priorities, and Cabinet existed independently of the political and bureaucratic protagonists. To rehearse a point made at the beginning of this chapter, institutions enjoy a legitimacy which cannot be reduced to the instrumental intent of individual actors (Lowndes, 1996, p. 182). Each of the mid-range institutions through which the Employment Strategy was mediated was larger than the sum of its constituent members, and none of the decisions taken therein could safely have been predicted solely on the basis of the preferences of particular actors.

Yet neither were those decisions wholly determined by institutional context. There is no doubt that institutional variables mediated the outcomes of the process. It is similarly clear, though, that within the boundaries prescribed by G5, the Cabinet committee, and Cabinet both ministers and officials held (and forcefully expressed) strong views on policy and structural matters. To paraphrase Cortell and Peterson (1999), institutional arrangements created opportunities (or constraints) for policy and organisational reform, but the exploitation of those opportunities depended upon the intervention of goal-directed individuals. At the end of this chapter, then, lurks a conundrum. Rational choice institutionalism cannot satisfactorily explain political autonomy and institutional specificity, but historical institutionalism is uncomfortable with preference-driven human agency. As a consequence, both orientations provide only partial responses to the query at the centre of this research, which has to do with the drivers of institutional change within

the bureaucracy. Rational choice emphasises the primacy of bureaucratic maximands as drivers of institutional reform (but proposes no equivalent for ministers), while historical institutionalism addresses the influence of contextual variables such as the architecture of the political executive (but is less forthcoming on the motives of individual ministers and officials).

Given the requirement in this thesis to account for both bureaucratic and ministerial contributions to the Employment Strategy, the logical solution to the puzzle is to search for points at which the two traditions can be stitched together. The disjunctures between the rational choice and historical variants of institutionalism would make such an exercise a theoretically hazardous task. Nonetheless, that both embrace the importance of institutions suggests the potential for a theoretical reconciliation. The final chapter of this dissertation brings the two approaches to the study of institutions together into a single model, one capable of making sense of the diverse determinants of the Employment Strategy.

Chapter 11 - Conclusion: a theoretical reconciliation

11.1 Introduction

This research set out to identify the determinants of the trajectory and institutional outcomes of the National/New Zealand First coalition's Employment Strategy. In chapter 3 three subsidiary components of that mission were identified. They concerned:

1. the motives of senior bureaucrats within the DoL and the DSW;
2. the degree to which leverage over outcomes was wielded by ministers and officials respectively; and
3. the extent to which institutional arrangements within the political executive played a part in the resolution of the core Employment Strategy debates.

The final chapter of the thesis has two related purposes. The first is to propose a series of conclusions regarding the over-arching research question by bringing together the insights generated through the application of rational choice models and historical institutionalism. The former, with its emphasis on calculated human agency, provides purchase on the first of this study's three intermediate components; the focus on institutional context in the latter throws light on the second and third.

Neither approach, however, can explain the Employment Strategy in its entirety. As the project has developed it has become clear that a closer theoretical alignment of the two orientations offers considerable explanatory potential. It is 'one of the curiosities of contemporary political science' that, notwithstanding a shared conceptual etymology, historical and rational choice approaches to the study of institutions have developed in isolation (Hall and Taylor, 1996, p. 942). Given their respective strengths some have suggested that 'it may be more fruitful to explore what each has to offer each other than to decide between the two once and for all' (Thelen and Steinmo, 1992, p. 12). In that spirit, the second purpose of this chapter is to advance a new theoretical model based on a rapprochement between rational choice and historical institutionalism.¹

¹ The model is not capable of delivering an all-encompassing explanation of specific instances and/or general patterns of institutional reform. Because neither rational choice nor historical institutionalism can model the personal desires, beliefs and moral templates of historical individuals (Dowding, 1994), a complete analysis of the outcomes of a process such as the Employment Strategy would need to incorporate a behaviourist assessment of the wishes of the various participants. An accommodation of that nature is beyond the scope of this study, which has expressly concentrated on institutionalist, rather than behavioural approaches.

11.2 Rational choice and bureaucrats' motives

The theoretical and empirical pursuit of the determinants of the Employment Strategy began in Part 1 of the dissertation, in which the particulars of both the process of government formation in 1996 and the employment policy subsequently implemented by the National/New Zealand First coalition were set out.

Parts 2 and 3 contained an extended analysis of the capacity of economic models of bureaucracy to address the core concerns of the project. One of the major attractions of both traditional and revised rational choice approaches is the centrality accorded to bureaucrats' abilities to implement maximising strategies. However, despite its theoretical elegance, the orthodox supply-side rational choice model received no support when tested empirically against the development of the Employment Strategy. Niskanen's assumption that bureaucrats are motivated to maximise departmental budgets did not accurately portray the preferences of senior officials in the departments of Labour and Social Welfare, and his prognosis of an expanding bureaucracy inaccurately describes both the specific outcomes of the Employment Strategy, and the general trajectory of recent bureaucratic evolution in New Zealand.

11.2.1 opportunities

The data gathered in this research may falsify aspects of Niskanen's argument, but they do not falsify the rational choice method *per se*. There is much to recommend Dunleavy's assessment that 'the rational choice approach is too powerful an analytical tool-kit to neglect or abandon' (1991, p. 5). By situating conscious individual agency at the centre of political activity, rational choice focuses on optimising behaviour as the principal driver of institutional form and function. It thereby privileges the actions of real actors, and 'avoids the trap of reifying institutions by treating them as things that exist apart from the shared understandings and resulting behaviour of participants' (Crawford and Ostrom, 1995, p. 583). This accommodation of goal-directed behaviour, based upon strategic decisions made by rational individuals acting in particular institutional environments, assists immeasurably in accounting for the specifics of political conduct within the machinery of government. In effect, it enables the outcome of rational actors' conduct to be predicted on the basis of fixed preferences and an institutional 'map'.

More specifically, it allows Dunleavy to construct a refurbished model of bureaucracy which offered an altogether more promising means of explaining the Employment Strategy. New rational choice institutionalism contests the orthodox assumption that 'behaviour is a

sufficient basis for explaining all the phenomena of government' (Immergut, 1998, p. 6), and departs from the standard position that institutional parameters are beyond the reach of bureaucratic and political actors. Having accepted that institutional contexts influence individuals' choices of maximising pathways, Dunleavy proposes a revised bureaucratic maximand (leverage over institutional design) and a slate of work- (and specifically policy-) related utilities which in tandem provide a plausible description of the contemporary bureaucratic milieu which applies in New Zealand and, in many instances, internationally.

One of the great attractions of Dunleavy's model (and of rational choice generally) is the deductive approach it takes to its subject matter. On the basis of a limited number of assumptions and the application of a handful of universal principles, Dunleavy proposes a relatively parsimonious model of bureaucratic behaviour, one which specifies explicit benchmarks against which its predictions can be tested across time and space. The empirical application of that model to the Employment Strategy highlighted two important features which were consistent with its maxims. First, the DSW's officials explicitly sought to shed routine service delivery functions to other departments in order to attain the functional (and therefore budgetary) profile of a purely policy-focused agency. In order to do so, they implemented a mix of Dunleavy's five bureau-shaping strategies prior to and during the Strategy. Most obviously, the DSW promoted both administrative practices and an organisational model which were sympathetic to a positive bureau-shaping outcome.

Secondly, the budget profiles of both the Ministry of Social Policy, and to a lesser extent the DoL, resembled those which characterise desirable policy agencies. During its short-lived existence, the Ministry administered a modest overall budget, the appropriation of which was largely independent of any requirement to treat with external organisations. Virtually all of that budget circulated within the agency's parameters, and could therefore in large measure be allocated to the performance of stimulating policy tasks.

Dunleavy's is a rational actor with a difference, and during the Employment Strategy, worked in the DSW. That instrumental official is not the subject of impersonal institutional forces, but is instead able to actively shape institutional boundaries for calculated purposes. When filtered through the bureau-shaping model, the data collected in the course of this exercise support the proposition that the motives of senior bureaucrats *were* an important factor in determining the course and outcomes of the Employment Strategy.

11.2.2 constraints

That conclusion notwithstanding, two features of the bureau-shaping model constrained its overall utility in this study. First, Dunleavy's adherence to the tenets of rational egoism and the assumption that bureaucrats' preferences are exogenously determined prevent him from explaining observed variations in bureaucratic conduct. This research clearly demonstrates that senior bureaucrats are not uniformly motivated to seek out policy work. That much was revealed by the strong desire of officials within the DoL to maintain the institutional connections between policy and operations within their department; it can also reasonably be inferred from the preferences expressed by those officials who chose to work in the departments of Work and Income and Child, Youth and Family Services. Thus, while bureaucrats' motives can be a powerful force for institutional change, those motives are variable and diverse, rather than immutable and exogenously fixed.

Secondly, the bureau-shaping account offered scant means for explaining important aspects of the involvement of politicians in the Employment Strategy. The initial window for institutional change was opened by politicians, not bureaucrats, during the process of government formation. The former Minister of Social Welfare has publicly doubted that structural change would have occurred without a formal reference to reform in the Coalition Agreement; in the absence of that sort of political commitment it is difficult to envisage officials convincing any government of the need for policy and institutional reform on the scale achieved through the Employment Strategy. And while bureaucrats recommended options (that is, expressed preferences) regarding optimal institutional design, ministers took the decisions which resulted in the subsequent structural upheavals in the departmental sector. Moreover, they did so in fora within the political executive which progressively quarantined the exercise of executive authority from public servants. Debates between ministers and officials within G5 had an air of immediacy; by the time G5's recommendations had been through the Cabinet Committee on Strategy and Priorities and reached Cabinet, officials were not even present when the critical decisions were taken.

11.2.3 rehabilitating the political

Dunleavy's bounded institutionalism encompasses the administrative but not the political wing of the executive branch of government, for which reason it provides limited assistance with the second and third of the three components of the over-arching question addressed in this dissertation. And yet it may be that appropriately motivated bureaucrats are not a necessary precondition of the sort of bureau-shaping described by Dunleavy, for if ministers collectively decree institutional change (either in the direction of or away from a bureau-

shaping ideal), then public servants are obliged to act accordingly in support of that collective interest. To suggest otherwise is to impute to officials an unrealistic degree of constitutional and political leverage.

The bureau-shaping model does not incorporate a comprehensive assessment of the capacity of politicians to influence bureau-shaping outcomes. Neither does it contain an analysis of ministers' utility functions or incentive structures. One means of resolving those flaws is simply to graft a set of political preferences and utilities on to the basic model (that is, to attach a demand-side adjunct to Dunleavy's supply-side framework). That much can comfortably be achieved within the revisionist rational choice paradigm, which provides a coherent structure for the illumination of bureau-shaping incentives and strategies for both bureaucratic *and* political actors. For instance, Cortell and Peterson (1999) suggest that elected representatives use institutional reform as an instrument for maintaining or enhancing their power and position. O'Faircheallaigh *et al.* (1999) have also proposed a theoretical case for bureau-shaping by political sponsors. In their view, ministers have incentives to re-shape departments in order to secure 'greater leverage to impose their own preferences, while providing more substantial achievements and greater value for money' (O'Faircheallaigh *et al.*, 1999, p. 25). To those efficiency incentives might be added an effectiveness consideration; that is, ministers are motivated to re-configure departments in order to improve the quality of policy advice and service delivery. In other words, and accepting for these purposes the tenets of demand-side rational choice, if the politician's primary maximand is votes cast at an election, it could be proposed that the exercising of authority on machinery of government matters constitutes a secondary (or post-executive) maximand.

O'Faircheallaigh *et al.* might have had the National/New Zealand First government's Minister of Social Welfare or Minister of Employment in mind, for it is abundantly clear that both (and by extension their executive colleagues) held strong views regarding the efficacy of policy and institutional settings. When asked whether he had ever entertained the possibility of bringing the Employment Service into the DSW, for instance, Roger Sowry's patently bemused response ('God no, we didn't want it' (Sowry, interview, 1998)), revealed the depth of his feelings on the matter. The fact that Sowry's goals were largely realised provides the clearest possible indication that the modelling of ministers' preferences on matters of institutional design must be a feature of rational choice models of bureaucracy. Ministers are, after all, 'interested in outcomes, and in good achievement of

those outcomes as efficiently and as cost effectively as possible. That is what being in [government] is all about' (Birch, interview, 1999).

11.3 Historical institutionalism and bureaucratic reform

A revised rational choice model could accommodate an analysis of preference-driven ministerial conduct. It could also be used to articulate individual and collective strategies ministers might subscribe to in reshaping institutional boundaries (many of which, such as the creation of quasi-markets in public services, the use of non-public sector providers, and the vertical division of functions, were discussed in section 6.4).

Such an approach could not, however, readily incorporate a reflexive assessment of the institutional environment within which executive decision-making occurs. It would not be enough simply to include politicians in the rational choice mix without also adding the theoretical tools required to understand how arrangements within the political executive facilitate and constrain ministerial bureau-shaping behaviour. Those arrangements give ministers a decided edge over bureaucrats in determining the outcomes of institutional reform; they also represent the terrain on which contests between ministers take place and are resolved. In terms of the Employment Strategy, a suitably refurbished rational choice model could account for both Sowry's and McCardle's wish to revise policy and bureaucratic structures, but a more comprehensive model would be required to explain (a) why certain executive decisions (and not others) were taken, and (b) the fact that those decisions triggered structural outcomes which were more consistent with Roger Sowry's preferences than they were with those of Peter McCardle.

The historical institutionalist tradition explored in Part 4 of the dissertation provides the requisite theoretical instruments. Historical institutionalism has most frequently been used in a comparative context as a means of 'understand[ing] policy continuities within countries and policy variation across countries' (Thelen and Steinmo, 1992, p. 13). The first of those usages suggests an inherent tendency within the literature (encapsulated in the notion of path dependency) to emphasise the stable nature of institutions and the continuous nature of policy development. There is, however, an increasing acceptance within the literature of policy dynamism and institutional disequilibrium. Cortell and Peterson (1999), for instance, emphasise the ways in which incremental institutional adaptations can, over time, generate significant aggregate effects. Krasner's (1984) model of 'punctuated equilibrium', on the other hand, suggests that institutional matrices are

characterised by long periods of relative stability, punctuated from time to time by externally generated crises which require the creation of new institutions, or the modification of old arrangements.² In such circumstances it is politics which shapes institutions, rather than the reverse (Thelen and Steinmo, 1992).³

Because it relies so heavily on the notion of fixed preferences, orthodox rational choice can offer little more than a single trajectory of institutional change. The universal maximising preferences of bureaucrats, for instance, will only ever lead to a 'bloated' bureaucracy; officials' preferences for policy work will logically result in fewer delivery departments and more policy agencies. Conversely, while they may approach the issue from different stances, both Krasner and Cortell and Peterson would accept that rather than 'following a logical and efficient trajectory, history is marked by accidents of timing and circumstance' (Immergut, 1998, p. 23). As such, historical institutionalism can comfortably entertain the prospect of institutional dynamism.

11.3.1 opportunities

That sort of orientation promotes empirical inquiries which are primarily iterative, or inductive, in nature, and which can be tailored to specific institutional contexts. It also demands a search for multiple influences on the outcomes of political processes, rather than for a single determining variable. That perspective is entirely appropriate in the context of an Employment Strategy which triggered a significant reorganisation in the departmental sector, and throughout which the actions of a range of political and bureaucratic actors revealed disparate, often conflicting preferences.

The analysis provided in chapter 10 did not purport to be an exhaustive one. Indeed, it could conceivably have incorporated a number of other institutional variables which receive little attention in this thesis. Matters for future research would include the influence upon the Employment Strategy of the coalition's formal dispute resolution processes (see Coalition Agreement, 1997, pp. 9-11), the inter-departmental officials committees (see section 3.2.2), and the informal working relations amongst both ministers and officials

² Eichbaum (1999) applies Krasner's model in his study of central banking arrangements in Australasia.

³ The impetus behind these institutional ruptures may derive from:

- changes in the wider socio-economic or political context;
- existing institutions being put to new ends by new political actors;
- existing institutions being put to new ends by existing political actors;
- new institutions being put to new ends by political actors (Thelen and Steinmo, 1992, pp. 16-17).

which 'oiled' the wheels of the Employment Strategy (briefly alluded to in sections 3.3.5.1 and 3.3.5.2). A more searching analysis of the bearing which the coalition negotiations had upon the employment policy provisions of the Coalition Agreement would also be fruitful. Indeed, the recency of New Zealand's electoral law reforms offers a range of research opportunities regarding the influence of the rules and regulations of government formation upon the policy agendas of multi-party administrations.⁴ More broadly, attention could be given to the ways in which the outcomes of the Employment Strategy, and public policy generally, reflect the influence of high level institutional arrangements such as the electoral system and the fusion of the executive and legislative powers.

However, the exclusive focus in this study on G5, the Cabinet Committee on Strategy and Priorities, and Cabinet reflected a concern to establish the immediate determinants of the institutional changes associated with the Employment Strategy. That is, the analysis of the relevance of those mid-range political institutions derived from the second and third of the subsidiary components of the primary research question. As far as the relative influence of officials and ministers during the Strategy is concerned, the point to emerge from this study is that, irrespective of their motives, bureaucrats set on (or opposed to) a course of policy and organisational change will at some point need the support of sponsors in the political executive. Senior officials can engage in a certain amount of intra-institutional remodelling, but extensive machinery of government change requires the collective concurrence of ministers. Thus, the DSW honed an active approach to case management and instituted a series of internal structural revisions, but the full bureau-shaping value of those initiatives could not have been realised had ministers not supported the department's strategic vision.

If individual ministers made a pivotal contribution to the Employment Strategy, so the institutional matrix which constitutes the political executive must also be considered in making sense of processes of bureaucratic reform. In the context of the Employment Strategy the translation of officials' and individual ministers' preferences into government policy was constrained by the need to negotiate the veto points posed by G5, the Cabinet Committee on Strategy and Priorities and, most importantly, Cabinet itself. Those core institutions established the parameters within which the Strategy was transacted: they structured relations between ministers and officials, determined the location of executive power, and created both opportunities and constraints for the champions of institutional

⁴ The relevant literature includes Boston (1998c), Brechtel and Kaiser (1999), Budge and Laver (1986), Laver and Schofield (1990), Laver and Shepsle (1996), Strom (1990), Strom, Budge and Laver (1994), and Warwick and Druckman (2001).

and policy reform. In fact, their contribution throws empirical weight behind Shepsle's contention that 'all the 'action' ... [is to be] found in the sometimes subtle influence provided by control over structure and procedure' (1989, p. 137). In sum, the application of the tenets of historical institutionalism to this case-study leaves little room for doubting that the actions of ministers, mediated through the various institutions which encompass that conduct, were important factors in determining the outcomes of the Employment Strategy. Roger Sowry may have exercised considerable agenda leverage at a personal level, but his influence was legitimised by arrangements within the political executive.

11.3.2 constraints

The structuring and sequencing of decision-making within G5, the Cabinet Committee on Strategy and Priorities, and Cabinet was particular to the Employment Strategy, and generated structural outcomes which were specific to that case. However, the institutional profile of that influence cannot safely be assumed to also apply in other instances of bureaucratic reform, as historical institutionalism lacks a specific methodological anchor, the possession of which is a strength of Dunleavy's revised rational choice approach. Briefly, historical institutionalism does not articulate a model of human agency which would allow it to span the divide between its concern with institutional context, and the truism that political and bureaucratic actors possess preferences which motivate them to behave in certain ways in the pursuit of particular objectives. Historical institutionalism can assist in explaining *how* institutional contexts influence political outcomes, but it cannot shed a great deal of generalisable light on the *goals* which those individuals are motivated to seek. To borrow a term more commonly associated with rational choice, it cannot lay claim to a uniform behavioural postulate upon which individuals' actions can be modelled.

That absence is a logical adjunct of the insistence that political actors' goals and strategic choices cannot be disentangled from the institutional contexts within which such agency occurs. This preoccupation with institutional specificity explains the failure of historical institutionalism to develop a fully fledged micro-level model of the causal relationship between institutional form and individual behaviour (Hall and Taylor, 1996, pp. 950); in turn, that reduces the predictive utility of its analyses. Frequently, as leading historical institutionalists concede, in any given instance of institutional evolution there are simply too many independent variables to account for with any precision (Immergut, 1998). Ironically, while rational choice has sacrificed particularity in the pursuit of generalisability, in its desire to avoid the shackles of rational egoism historical institutionalism has become context-bound.

Consequently, there is a latent tendency within much historical institutionalist scholarship to assume that institutional arrangements drive both processes and outcomes. But neither can safely be anticipated or assumed *ex ante* solely on the basis of a particular institutional configuration. To suggest as much is to engage in the sort of structural determinism which denies rational actors agency, and which has been identified by Thelen and Steinmo (1992) as the key inadequacy in extant institutional analyses. An approach of that nature would privilege institutional design as the over-riding determinant of political outcomes, and thereby invite the reverse of the criticism often levelled at rational choice. In fact, institutions 'do not force human action along a single track ... [but instead] ... provide a context for action that helps us to understand why actors make the choices that they do' (Immergut, 1998, p. 26). Put differently, while 'institutions constrain and refract policies, ... they are never the sole 'cause' of outcomes' (Thelen and Steinmo, 1992, p. 3).

For want of a generalisable behavioural driver with which to complement its concern with institutional conditions, historical institutionalism faces a number of problems. First, its emphasis on case-specificity makes it difficult to deduce generalisable propositions from historical institutionalist analyses. For example, the operation of G5 as an institutional filter between the officials' community and the wider political executive was central to the outcomes of the Employment Strategy, but one cannot on that basis propose that, in all other cases of bureaucratic reform, *ad hoc* groups of ministers (were they to be formed) would have equivalent impacts on outcomes. G5's influence was a function of the convergence of a range of factors, including institutional location, force of personality, political experience and bureaucratic positioning, some or all of which would not obtain in different circumstances. Secondly, falsifying the findings of historical institutionalist studies is problematic. Through a series of institutional checks and balances, the DSW's championing of structural integration was crucial to the decision on that issue which was taken by Cabinet. However, it cannot be established, perhaps by repeating a similar-systems analysis with another case-study, that the same decision would not have been taken without the department's vigorous advocacy of that option. Historical institutionalism does not easily accommodate counter-factuals.

11.4 A cultured calculus

The assessment of the strengths and weaknesses of the rational choice and historical approaches to institutions begs some obvious questions for those who seek to employ both for research purposes. On the one hand, while it is sufficiently theoretically flexible to

accommodate the institutional specifics of New Zealand's system of Cabinet government, historical institutionalism lacks 'the kind of universal tool kit and universally applicable concepts on which ... deductive theories are based' (Thelen and Steinmo, 1992, p. 12). As a consequence, it struggles to reveal what animates bureaucrats or politicians. For its part, the insights made possible by rational choice institutionalism into the motives and intentions of the inhabitants of political institutions are too important to be discarded. Yet life is not a continuous process of deliberate decision-making by individuals (March and Olsen, 1984), and the tradition is badly in need of innovations which allow it to explain how institutions influence preference formation, and structure relations within and between clusters of political and bureaucratic protagonists.

For reasons of theoretical coherency it is tempting simply to endorse one of the two traditions drawn on in this thesis, and to put the other quietly aside. That course of action would be supported by those rational choice scholars who dismiss historical institutionalism as 'inelegant and atheoretical' (Thelen and Steinmo, 1992, p. 12), and by historical institutionalists who believe that approaches based upon positivist methodologies are prone to 'reductionism and ignoring the inherent complexity of human political action in favour of elegant but unrealistic laws' (Thelen and Steinmo, 1992, p. 26). But it would also amount to an acceptance of a trade-off between institutional specificity and empirical generalisability, when instead there is much to be gained from bridging that divide. In the context of the Employment Strategy, certainly, a conscious decision to ignore the strengths of one approach and to accept the weaknesses of the other would have resulted in a much less comprehensive assessment of institutional change than has been provided here. Quite where the common ground between the two traditions lies is a little unclear, and there is a risk that any attempt to find it will amount to little more than a 'crude synthesis' of ideas (Hall and Taylor, 1996, p. 957). That said, this research suggests the basis of a reconciliation between rational choice and historical institutionalism, and new lines of theoretical development and empirical inquiry.

11.4.1 a shared emphasis

The consensus across both camps that 'behaviour occurs in the context of institutions and can only be so understood' (Immergut, 1998, p. 6) provides a point of departure for the process of rapprochement. The rediscovery of institutions within rational choice has already been dealt with at length in this thesis (in chapters 7 and 8). But there are indications, too, that historical institutionalists are increasingly having recourse to the tenets of methodological individualism in order to boost the sophistication and interpretive

capability of their own theories (Immergut, 1988). Indeed, Hall and Taylor are convinced that the best contemporary historical institutionalist accounts 'show how historical actors select new institutions for instrumental purposes, much as a rational choice analysis would predict, but draw them from a menu of alternatives' (1996, p. 957).

For example, Krasner's work on institutional ruptures, which is predicated on the acceptance that politics can shape institutions, creates a space for the rational inhabitants of the political realm. For Krasner (1984) political institutions are created by political actors, *ipso facto* they can be modified by political agency. That is, the interplay between political actors pursuing their own interests (although how those are defined remains a point of considerable contention) can result in crises which result in institutional change. And as Thelen (1991) has argued, rational actors are capable of acting strategically by taking the opportunities presented by shifting institutional sands to defend or advance their own interests. Both Krasner and Thelen could comfortably describe what occurred during the Employment Strategy, to the extent that the process was marked by the mobilisation of a range of political and bureaucratic actors around their preferred positions *vis a vis* the four key debates, the final resolution of which resulted in major realignments in the bureaucratic architecture. The core characteristic of the Strategy, in fact, was that the interplay between goal-directed actors was mediated in particular institutional contexts, and in due course caused reform in other institutional environments.

11.4.2 revising preference formation

There are indications, then, that the two approaches are incrementally adopting aspects of the orientation traditionally associated with the other. But substantive progress depends upon a fundamental re-examination within each tradition of the assumptions regarding the bases of intentional human agency, and in particular the nature of preference formation. Scholars from both sides are broadly in agreement that institutions influence individuals' actions, but there remains significant disagreement regarding the process through which the preferences which motivate that behaviour are formed (Thelen and Steinmo, 1992).

In rational choice institutionalism officials' utilities and the maximising strategies at their disposal are endogenised, but preference formation *per se* remains fixed.⁵ Thus, in the bureau-shaping model all officials are ascribed a prior set of utilities the realisation of which

⁵ Although he claims that they are endogenously determined (Dunleavy, 1991, p. 254), Dunleavy's slate of presumed preferences, or pro-values, applies regardless of whether an official is employed in a delivery department or a policy agency.

is a function of institutional design. The rational choice practice of attributing enduring preference structures to individuals in isolation of institutional context has been described as a 'sleight of hand' (Hamilton and Feenstra, 1998, p. 153). The notion offers much in terms of modelling maximising behaviour, but has become a theoretical straightjacket, affording empirical conclusions which are essentially variations on a single, bounded theme. The insistence that the preferences of rational actors are given makes it impossible to countenance the possibility that individuals' preferences evolve as they ascend, descend or depart bureaucratic hierarchies, or gain knowledge and experience of ministerial office.

On the other hand, historical institutionalism stresses the endogeneity of individuals' preferences (Ostrom, 1995, p. 174). The unwillingness to take preference structures as given leads historical institutionalists to approach 'the goals, strategies, and preferences of actors as something to be explained rather than something to be assumed' (Ostrom, 1995, p. 174). This lends to its analyses a sense of specificity and authenticity frequently missing from rational choice accounts, but it also suggests that people's preferences are inherently inconstant and infinitely variable. Quite apart from the significant methodological issues identified above, by removing the anchor of exogeneity historical institutionalism risks signalling that preference formation is a whimsical and contingent process. It then becomes difficult to describe the process through which individuals' make choices as being anything other than intransitive.

11.4.3 reconciliation

Preference formation may be the most testing matter confronting the two orientations, but for that reason considerable gains are likely to flow from its resolution. Hall and Taylor hint at a resolution by proposing that 'a good deal of behaviour is goal-oriented or strategic but that the range of options canvassed by a strategic actor is likely to be circumscribed by a culturally-specific sense of appropriate action' (1996, p. 956). The suggestion is that behaviour is purposive but bounded by a moral/cultural template, which itself reflects the rules, norms and conventions woven into the fabric of specific institutions or organisations.

To consolidate this negotiated balance between parsimony and complexity rational choice institutionalism would need to substantially abandon its assumption of fixed preferences and move towards the historical institutionalist position on the endogeneity of preference formation. More especially, it would need to carefully examine the influence which external political considerations have on actors' goals, and their ability to realise potential opportunities for institutional change (Cortell and Peterson, 1999). Moreover, to

accommodate the behaviour of individuals who are motivated by other-regarding (or non-maximising) intentions, rational choice would need to modify its insistence on a uniform maximising behavioural postulate. In short, to add plausibility to its existing strengths, rational choice institutionalism needs to shift from a static to a dynamic position regarding the motives, strategies and outcomes of goal-directed behaviour.

Such flexibility would have to be matched by an equivalent willingness within historical institutionalism to entertain a firmer position on preference formation. Critically, that would require the prior adoption of a relatively hard-edged behavioural postulate which is not reducible to institutional context. The postulate would need to be sufficiently forgiving to accommodate the imperatives of institutional context, and suitably independent of that context to permit both maximising and non-maximising behaviour.

If historical institutionalism is to secure the benefits which derive from rational choice (generalisability, falsifiability), it will need to use that postulate to inject a measure more transitivity into its analysis of individuals' preference structures. Some would protest quite reasonably that it is not possible to have a 'measure more' transitivity: preferences are either transitive or they are not. That said, it is possible to mirror the distinction drawn between the formal and informal features of theoretical models (section 4.3.2.1), and to suggest that an individual's preferences will be relatively durable over time, but are sufficiently flexible to evolve with changes in both personal and institutional circumstances.

Table 11.1 - An optimising framework

| | Rational choice institutionalism | Historical institutionalism | Optimising framework |
|------------------------------|---|---|--|
| behavioural postulate | rational egoism | unspecified | adaptive rational egoism |
| preference formation | assumed fixed exogenised and revealed through choice | explained fluid endogenised | explained fluid endogenised but reflects modified rationality |
| strategies | institutionally specific | institutionally specific | institutionally specific |
| behaviour | maximising strategic context specific | satisficing strategic context specific | optimising/satisficing strategic context specific |
| role of institutions | define choice pathways amenable to agency | condition decisions amenable to agency | condition decisions amenable to agency |

Table 11.1 articulates an optimising framework, which schematises the benefits of resolving the conundrum of preference formation. It is based upon a modified behavioural postulate which entertains egoism and accepts rationality as a legitimate motivating force, but which proposes that an empirically robust rationality has to encompass both other-regarding conduct and environmental context. ‘Strong’ conceptions of rationality have highly limited empirical application, and so following Dowding (1994, p. 114), who advocates the introduction of ‘variable behavioural assumptions based ... upon known empirical variations in behaviour’, adaptive rational egoism has been adopted in the optimising framework to allow for the effects of learning.⁶ That is, the ‘objective function’ (Mueller, 1986, p. 19) to which rational action is directed is not set for all time, but is adapted on the basis of individuals’ experience and the exigencies of context. A flexible objective function can certainly cater for self-interest, but it could equally permit altruism and other categories of non-self regarding conduct.

Complementing this contingent rationality is an understanding of preference formation which is fully endogenised (that is, which is sensitive to institutional imperatives), but which also leaves room for rational calculations which may be more or less self-regarding. Put differently, instrumental individuals bring existing referents to a given decision-making moment, but the range of possible resolutions at that point is additionally a function of institutional context.

In tandem, those modified behavioural drivers allow for intentional behaviour without presupposing or externally prescribing the goals to which it is directed. Instead, individuals’ preferred ends derive from a strategic calculus which balances self- and/or other-regarding motives with the mix of constraints and opportunities established by the external institutional environment. The strategies through which those outcomes can be sought are institutionally conditioned (regarding which there is currently no great theoretical disagreement), but the behaviour manifest through those strategies tends to be optimising (or satisficing) rather than maximising. One of the conditions of modified rationality is an awareness that one’s actions are bounded by, for instance, collective action issues and

⁶ The term is adapted from Mueller’s ‘adaptive egoism’. Mueller believes rational choice has to be able to account for co-operative conduct, and on that basis suggests that it can boost the realism and descriptive power of its analyses if it maintains the ‘egoistic portion of rational egoism, [but] drop[s], or better modif[ies] the rationality assumption, at least in the strong form in which [it] is usually employed’ (1986, p. 14). An appropriately adapted rational egoist postulate would permit individuals to pursue their own ends, but would ‘place more emphasis on the experience of the individual in relationship to the context in which [decisions are taken], and less on the consequences of the decision’ (Mueller, 1986, p. 9).

imperfect knowledge. By conditioning the nature of and costs associated with choosing particular behavioural paths, institutions limit the capacity of individuals to fully realise their preferred outcomes. In an optimising framework, goal-directed behaviour is directly countenanced, but it is not pre-determined by either a universal behavioural postulate or a reified institutional edifice. Instead, the motives, goals, strategies and outcomes of human agency are negotiated rather than imposed.

11.5 Back to the departments

There are a number of reasons why an optimising framework might be rejected out of hand by proponents of both traditions. Rational choice purists, particularly those associated with first principles public choice, are likely to look exceedingly poorly on the loss of a universal behavioural postulate and fixed preferences. Resiling from either would cut to the very core of the tradition (at least in its more doctrinaire manifestations), threaten its internal coherence, and substantially detract from the parsimony and analytical generalisability on which rational choice model builders have long prided themselves. Conversely, if the '[b]asic assumptions of rational choice become less and less tenable the more institutions are taken into account' (Nee, 1998, p. 10), historical institutionalists are similarly likely to look askance at efforts to introduce a behavioural postulate which exists prior to and independent of institutional situation and historical context. Positivism of that nature is anathema to many in the tradition, and the risk it poses to the institutionally-grounded nature of institutional analysis is such that it is likely to be vigorously resisted.

On the other hand, methodological pluralism of the sort designed into the optimising framework will reduce the binary tension which currently exists between rational choice and historical institutionalism. Moreover, it is possible to move some considerable distance in that direction without fatally compromising the integrity of either approach. For instance, what defines rational choice is that it 'makes general assumptions about the motivations of people in order to predict how, generally, they will behave in certain social situations' (Dowding, 1994, p. 106). The specification of those motives can be changed without altering the structure of the logic which suggests that people's behaviour is motive-driven. Whether bureaucrats' motives are self- or other-regarding is, in a sense, secondary to the fact that they have an influence on their choices and behaviour. In other words, providing that maximand is knowable, it should still be possible to predict the outcomes of instrumental behaviour on the basis of an altruistic maximand.

What is required is a stronger theoretical and applied appreciation of the interaction between outcome-directed conduct and institutional environs. The ability to generate testable propositions deriving from more realistic (and empirically robust) assumptions about human nature would go a long way towards reassuring Niskanen that rational choice does, in fact, have something of interest to tell the world (see chapter 5, p. 94). And it would be an advance for scholarship in this field if historical institutionalism modified its stance on particularism and context, given the constraints this places on its ability to illuminate causal relationships across cases and jurisdictions, and to uncover 'the 'true' preferences of individuals' (Immergut, 1998, p. 10).

Table 11.2 - A modified model of bureaucracy

| | Bureau-shaping model | Optimising model of bureaucracy |
|---------------------------------|--|---|
| utility | work-related (policy-prescribed) | work-related (non-prescribed) |
| maximand | leverage over institutional parameters politicians/bureaucrats | leverage over institutional parameters politicians/bureaucrats |
| strategies | bureau-shaping (bureaucratic) institutionally-specific (department) maximising | bureau-shaping (political/bureaucratic) institutionally-specific (department/executive) contingent/optimising |
| institutional parameters | amenable to bureaucratic agency | amenable to bureaucratic/political agency |

The adoption of a pluralistic, optimising framework would have clear ramifications for the study of bureaucracy. As yet the relevant literature lacks a single theoretical paradigm capable of enveloping the intersection of strategic agency and institutional parameters within the bureaucratic *and* political wings of the executive. The challenge is to conceive of interactions between goal-directed conduct (by both ministers and officials) and institutional arrangements which are dynamic and dialogical, rather than static and didactic. The optimising model of bureaucracy depicted in Table 11.2 illuminates the terms of engagement, and signals the utility of a successful marriage between rational choice institutionalism and historical institutionalism.

The utility of the model can be demonstrated by applying it to the empirical issues associated with the Employment Strategy. Resolution of the problematics discussed in chapters 9 and 10 (variable preferences, the nature of the maximand, and the influence of political agency) eluded the rational choice and historical institutionalist analyses, but each can be illuminated through the application of the optimising model of bureaucracy.

proposition 1

A union of revised rational choice and historical institutionalism would allow a wider range of utilities than is currently countenanced by existing models of bureaucracy. Those utilities could certainly include the entirely plausible pro-values promoted by Dunleavy, but might in addition extend to the management and service delivery activities which other bureaucrats consciously choose to undertake. Moreover, while officials' utilities would remain substantially work-related, they would not be restricted to those which accrue in tangible form to individuals. The adaptive egoist postulate informing the optimising model rehabilitates the notoriously 'soft' welfare gains garnered by officials who are motivated by a sense of service to the public.

issue resolved

It is quite clear that many officials involved in the Employment Strategy did not support the structural integration of the Income Support and Employment Services, which suggests that they did not wish to work in policy-exclusive institutions (see section 9.4.1). It is also beyond doubt that some enthused over Cabinet's decision to structurally merge the two entities. In short, this study demonstrated that bureaucrats' preferences are multiple and variable. The application of 'hard' versions of rational egoism obscures that fact; the adaptive rational egoism proposed here permits a more catholic range of utilities.

proposition 2

Leverage over institutional configuration remains the chief maximand in the optimising model. Dunleavy's generic argument that bureaucrats' welfare derives significantly from the functions they perform, and that function follows institutional form, remains a convincing one, and no more appropriate maximand has to date been suggested. Given the variable preference structures of bureaucrats, however, it is not possible to specify a single ideal agency-type towards which officials would direct optimising strategies. Rather, desired institutional configurations would reflect the preferences and pro-values of particular officials. In addition, the exercise of the maximand is extended to accommodate ministers' bureau-shaping incentives.

issues resolved

The empirical trail set out in this thesis demonstrates that while some officials are attracted by the prospect of working within a policy-specific organisation, others perceive that their interests are more consistent with a dual- or multi-purpose agency. In effect, debates over institutional design become contests between conflicting preference sets. In the

Employment Strategy, the DoL's opposition to structural integration revealed a preference for the institutional combination of policy and operations; the DSW's support for that measure reflected its preference for the vertical division of functions. Both sets of preferences, in turn, derived from different conceptions of the nature and sources of bureaucratic utility. Thus, control over institutional parameters remains critical, but in the optimising model that leverage can be exercised by bureaucrats to diverging institutional ends.

It can also be exercised by ministers. Collectively and individually, members of the political executive possess their own incentives to revise the machinery of government. Peter McCardle was motivated by his employment experience to support a closer structural alignment of income support and employment services; Roger Sowry was convinced of the need to deconstruct the DSW and replace it with a more suitable administrative vehicle for delivering the coalition government's employment policy. Those incentives, too, can be accommodated within a more expansive optimising model.

proposition 3

With three caveats the theoretical model advanced here imports (a) Dunleavy's insight that the strategies used by actors to secure welfare gains derive from specific institutional contexts, and (b) his slate of bureau-shaping strategies. However, while some or all of the bureau-shaping strategies might be engaged by senior bureaucrats motivated by the prospect of policy work, the obverse of those strategies might equally be chosen by officials whose preferences lie in other directions. For instance, a senior bureaucrat whose preference is to develop high-level policy advice grounded in the realities of service delivery might well wish to acquire, rather than shed, additional programme responsibilities (as per the creation of the Ministry of Social Development). Secondly, the bureau-shaping 'tool kit' must also include the sorts of strategies used by ministers. In particular, this research suggests that the conscious construction and/or use of institutional matrices within the political executive has a major bearing on the outcomes of decision-making processes. Thirdly, the environments in which ministers and bureaucrats function encourage them to adopt optimising rather than maximising strategies. The Employment Strategy was characterised by many stakeholders and multiple institutional veto points; given that complexity, no single minister or official achieved outcomes which were undiluted by the imperatives of others.

issues resolved

The first of those caveats is a response to the DoL's struggle to retain responsibility for policy and operations. The institutional hiving-off of delivery was a core strategy for the DSW, but the reverse (had it been successful) would have been closer to the preferences of many senior officials within the DoL. The second is simply an acknowledgment of the need to cater for the contribution of ministers to the framing and execution of the Employment Strategy. Roger Sowry, perhaps more so than any other coalition minister, utilised the mid-range institutions within the political executive (particularly G5) to good effect. Finally, the advocacy of a cautious approach to results captures the fact that no single political or bureaucratic actor in the Employment Strategy was able to employ bureau-shaping strategies to maximal effect. The DoL lost virtually every policy battle and much of its institutional capacity, Roger Sowry and the DSW secured structural integration but not a Crown entity, and Peter McCardle got far more than he originally asked for. In light of those empirical events, an optimising model should be able to account for the tendency of political outcomes to err on the contingent rather than the Pareto optimal.

proposition 4

Lastly, the optimising model concurs with the view that rational actors can re-draw bureaucratic boundaries, but it explicitly provides for politicians to participate in (and indeed substantially drive) institutional change. On this issue it is closer to historical institutionalism than it is to rational choice. For Niskanen and Dunleavy developments in the bureaucracy are the result of bureaucrats' maximising interventions. To be fair, both propose budget-related constraints on maximising behaviour. Budget-maximisation is constrained by the requirement that a department deliver the quantum of output demanded by political sponsors in return for an appropriation (Niskanen, 1971, p. 42), while for Dunleavy, bureau-shaping takes place within a budgetary constraint contingent upon the current and future shape of the agency's activities (Dunleavy, 1991, p. 209).

Niskanen's revisions notwithstanding, however, neither rational choice approach fully develops the role for politicians which each implies. It is not difficult to infer from Dunleavy that ministers establish fiscal parameters and specify the activities to which agencies must attend, but those functions do not rise to the surface in his analysis. In the optimising model, on the other hand, ministers are active participants in institutional innovations, not passive observers of bureaucrats' manoeuvrings. An important role for the legislative branch is also signalled in the model. The exclusive focus on the executive in this research precluded any detailed consideration of the parliamentary aspects of the

Employment Strategy, but in a different context important lessons could be learned through an assessment of the bearing which the legislative and scrutinisation functions of the New Zealand Parliament had on the coalition's employment policy.

issues resolved

The rehabilitation of the political is arguably the principal merit of the optimising model. It allows three features of the Employment Strategy to be fully explained. The first relates to the role which the pre-Cabinet institutional filters (G5 and the Cabinet Committee on Strategy and Priorities) played in shaping policy proposals before they went to Cabinet, and the importance of Cabinet as the final arbiter of executive power. The institutionalisation of executive decision-making remains slippery in rational choice models, but contests within G5 and the Cabinet committee over competing proposals were amongst the defining features of the Employment Strategy.

Secondly, the model proposed here allows what may be a constraint for a bureaucrat to be understood as an opportunity for a minister. Even the most effective official cannot unilaterally determine government policy, yet the New Zealand Cabinet is 'vulnerable to personal style' (McLeay, 1995, p. 2). As a minister, Roger Sowry was able to enter the institutions of the political executive and use them to advance his goals on matters of policy and organisational design. From the point of view of the officials in the DSW, Roger Sowry, rather than G5, represented the first institutional veto point.

This theoretical route into the ways in which politicians can utilise institutional arrangements to further particular objectives illuminates one of the most fascinating features of the Employment Strategy. In 1998 there was much public comment regarding Peter McCardle's success as a 'single issue' politician (Clifton, 1998, p. 19). But of the two it is Roger Sowry who emerges from this study as the more effective minister. New Zealand First's Minister of Employment initially called for modest institutional reform and incremental policy changes. However, when the dust settled on the public service in late 1998, the Employment Service and the Community Employment Group had been removed from the DoL, the Income Support Service had been taken out of the DSW, a large new delivery department had been created (with two more agencies not far off), and the Unemployment benefit had ceased to exist and had been replaced (with a raft of other stand-alone benefits) with a Community Wage applying to all working-age beneficiaries.

Those were Roger Sowry's reforms, and they eventuated because the Minister of Social Welfare successfully grafted them onto New Zealand First's flagship employment policy, and used an *ad hoc* group of ministers to generate the momentum required to gain the support of Cabinet. The Employment Strategy became the policy equivalent of a Trojan horse, containing a host of measures the full import of which became clear only late in the piece. Peter McCardle professes to have been comfortable with the eventual outcomes of the process, and to a degree his own preferences were designed into the final arrangements. But in Alf Kirk's opinion, to the end New Zealand First and the Minister of Employment remained blissfully 'unaware of the fact that part way through it, the agenda had changed, and had been taken over. Basically, what happened was that what was an Employment Strategy became a Welfare Strategy' (Kirk, interview, 1998).

11.6 Conclusion

This dissertation was triggered by an intrinsic interest in the National/New Zealand First coalition's Employment Strategy. Of particular interest was the discrepancy between the provisions codified in the 1996 Coalition Agreement and the extensive organisational reforms which eventually rolled out across the public service. Because the reasons for that lack of fit were not immediately obvious, the project took shape as a search for the etymology of the disjuncture.

It seemed probable that the cause(s) were likely to be both instrumental and institutional. Those two foci suggested corresponding sets of theoretical investigative implements. At the level of detail, the application of rational choice models highlighted the significant roles which senior (and particularly policy-level) officials played throughout the Employment Strategy, while the principles of historical institutionalism prompted reflections on the institutional points at which members of the political executive engaged with the process.

As the research proceeded it became increasingly clear, however, that at a broader level neither approach was able to grapple successfully with the issues surfaced by the other. The study has thus provided evidence of the difficulties which attach as a consequence of the territory of institutionalist analysis 'being carved up in terms of two orientations: rational choice versus interpretation, or a 'calculus' versus a 'cultural' approach' (Immergut, 1998, p. 28). Those issues have prompted calls for a collaborative exercise in theoretical border-crossing (see Dowding, 1994; Hall and Taylor, 1996; Immergut, 1998; Shepsle, 1989), which is the most productive direction in which to proceed.

The task of splicing together two distinct traditions on a first-principles basis is a challenging, but far from hopeless one. Hall and Taylor (1996, p. 940) find an encouraging pluralism in historical institutionalism, a willingness to draw on both 'calculus' and 'cultural' strands to explain the interaction between individuals and institutions. And rational choice is capable of incorporating analyses of the influence of institutions on rational action; Dunleavy's bureau-shaping model is a fine case in point.

In this chapter a new optimising model, based upon a reconciliation of the 'calculus' and 'cultural' approaches, has been advanced. Without surrendering to methodological reductionism, the model better accounts for the logic of institutional reshaping, relations between rational actors, and the vagaries of human agency. It represents an important contribution to the theory of institutional behaviour in the public sector, and in the context of both the particular and the general, opens up productive lines of empirical inquiry.

Appendix 1 - Methodology

1 The original focus

In a Masters thesis (which was completed prior to New Zealand's first MMP election in 1996), I had grappled with some of the policy challenges which were thought likely to confront multi-party governments in the advent of electoral law reform. In that work I proposed a theoretical case that the accountability arrangements which obtain between ministers and chief executives (described in this thesis in section 6.4) would act as institutional 'conductors' in times of intra-Cabinet tension, transmitting conflict between coalition partners into the core public sector.

My original intention was to test that hypothesis by assessing the degree to which divisions within multi-party Cabinets complicate the negotiation and implementation of the collective interest. In that context I planned to explore the extent to which the three control agencies (the State Services Commission, the Department of Prime Minister and Cabinet, and the Treasury) had established new institutional means of managing and resolving the policy process under coalition conditions.

I chose to use the Employment Strategy as a policy initiative which seemed to have generated the sorts of challenges I was interested in exploring. My intention was to determine the nature and effect of the central agencies' responses to those tensions. To that end I set about collecting data through eighteen interviews with the ministers and senior officials who had been most intimately involved with the Strategy.

2 An evolving project

At the end of the first slate of interviews (August and November 1998) it had become apparent to me that, beyond the government formation process, no new formal institutional mechanisms had been constructed within the bureaucracy for the purposes of managing the political-bureaucratic interface in the post-MMP era. That much was made clear by one senior official, who, when questioned on the issue, noted that:

... we move between the Prime Minister and ministers at the Prime Minister's direction, or behest. It [multi-party government] wasn't anything new in that sense, but it's obviously pretty sensitive territory, so you've got

to be careful how you conduct yourself in that environment as an official.
But no, we didn't alter our structures (interview, 1998).¹

Conversely, it had become clear that there were other significant issues associated with the Employment Strategy which merited close inspection. The interview I conducted with Roger Sowry in late November 1998 crystallised those matters into the two categories (policy-related and institutional) described in section 1.1. It also confirmed my sense (which had been developing since I had met with Alf Kirk a month earlier) that the conflicts which had taken place around policy issues (the design and coverage of the Community Wage) had been critical to, and in some respects had served as a proxy context for, the debates which subsequently took place regarding matters of institutional design. To the extent that I can nominate a precise time, it was at that point that the etymology of the machinery reforms associated with the Employment Strategy became the principal focus of this project.

3 Methodological matters

For reasons explained in section 1.2, the trajectory of the research prompted a decision to approach the Employment Strategy through the theoretical lens of rational choice. Initially, I intended to utilise only the orthodox economic model of bureaucracy. However, having encountered Dunleavy's work, the maxims of which appeared consistent with what I then understood of the Employment Strategy, the bureau-shaping model was also applied. Because Dunleavy proved unable to provide adequate purchase on the role of ministers or on the importance of institutions within the political executive, I also drew on contributions from historical institutionalism.

My decisions to (a) seek out the determinants of the trajectory and institutional outcomes of the Employment Strategy, and (b) to theorise those events using both rational choice and historical institutionalism, led to a data collection strategy which harnessed both quantitative and qualitative data.

3.1 quantitative data

The reporting of quantitative data in the thesis is a consequence of the ends to which I put public choice. Niskanen's economic model of bureaucracy rests on two core assumptions

¹ The allusion to multi-party government refers to the post-September 1994 era, when the single party National government lost its slim majority and formed a coalition with the Right of Centre party. Boston (1998c, p. 96) details the various configurations of government between 1993 and mid-1998.

(see section 6.2): that officials seek to maximise (or at least to substantially increase) budgets, and that their endeavours are generally successful. Most studies of the empirical veracity of the model have focused on the second of those assumptions, and fall back on proxy measures of 'the *success* of bureaucratic entrepreneurs in achieving their (presumed) goals [rather than] the existence of those goals' (Peters, 1991, p. 305; original emphasis). Specifically, the model is usually analysed by utilising dependent variables which act as surrogate measures of budget-maximising behaviour amongst bureaucrats.

Two core assumptions also underpin Dunleavy's bureau-shaping account: that senior officials are motivated to shape the institutional parameters of their departments, and that they can successfully do so. Thus, Peters' observations regarding the typical methodological orientation to Niskanen's model apply equally in Dunleavy's case.

This shared concern with measurable tests of maximising behaviour means that most empirical assessments of the merits of the orthodox and revised rational choice economic models, including those undertaken by the two authors themselves, draw exclusively on quantitative data.² I felt it both proper and important (for reasons of comparability) to approach Niskanen and Dunleavy on their own terms. Indeed, it would have been difficult to attempt the analyses of (a) the budget-maximising model contained in chapter 6, and (b) the outcomes of bureau-shaping strategies in the Employment Strategy (see section 8.4), without having extensive recourse to quantitative data. The relevant measures chosen in those sections of the thesis (the size of the public service workforce, the configuration of agencies' budgets, etc.) have all been used in other studies. For the purposes of this dissertation, in addition to formal publications, the requisite information was sourced from:

- the Annual Reports of the relevant departments;
- the Crown Accounts data prepared by Statistics New Zealand;
- personnel and employment surveys prepared by the State Services Commission;
- Budget Economic and Fiscal Updates prepared by the Treasury; and
- empirically-grounded publications prepared by the Reserve Bank.

3.2 qualitative data

Most of the data in the study, however, were gathered through the eighteen qualitative interviews completed with ministers and officials. The decision to use semi-structured

² Regarding Dunleavy, the sole exception I found to that rule was the work of Marsh *et al.* (2000), who include qualitative data drawn from interviews with seventy seven senior (serving and former) Whitehall civil servants.

interviews as the principal means of collecting data was also a function of the research question. That question required the exploration of the subjective motives, views and understandings of political actors regarding the Employment Strategy. Interviews with the actors themselves were the primary means through which the relevant data were gathered; in addition, other primary and secondary sources such as the parliamentary record, official documentation and formal publications were also drawn from.

My recourse to qualitative data gave rise to a significant issue, which concerned the utility of that data in the context of this study. The resolution of the matter derived from my unwillingness to accept without question the maximising assumption shared by Niskanen and Dunleavy. The theoretical and empirical difficulties which attach to the core rational choice behavioural postulate have been thoroughly rehearsed in this thesis (see sections 5.2.1 and 5.3.1). Collectively, those difficulties constitute strong grounds for contesting the assumption that officials are inherently motivated to maximise either their budgets, their leverage over institutional boundaries, or some other as yet unspecified maximand. I do not seek to downplay the methodological challenges associated with disputing the veracity of that assumption. Much of the available data regarding bureaucrats' motivations and utility functions derive from officials themselves (and that is certainly the case in this study)³, and while individuals' assessments of what drives them are no less credible for being inherently subjective, such accounts are difficult to independently verify or contest.

Nonetheless, there are at least three compelling reasons for contesting the fundamental rational choice assumption. First, if institutional scope and structure is to be considered a function of a bureaucratic maximand, the efficacy of the maximand in question (orthodox or revised) has to be established. To simply assert, for instance, that policy-level officials are motivated to shape agency boundaries is to propose (and to privilege over other potential causes) a fundamental driver of institutional change which may, or may not, function in actuality. Not only does that logic ignore the possible influence of non-bureaucratic determinants of institutional change (such as those explored in chapter 10), it excludes the possibility that officials may pursue bureaucratic reforms which *resemble* budget-maximisation or bureau-shaping for reasons *other* than those established on the basis of the rational egoist postulate. Officials seek budget increases for a range of reasons. Some clearly wish to garner the gains in power, prestige and leverage which attach to budget increases, but others are motivated by a deeply felt sense of service to the public to seek to

³ Although see Boston (2002), Gregory (1995; 1999), and Gregory and Hicks (1999).

improve the quality and coverage of the services (policy or operational) provided by their departments. This diversity of motives explains why the notion of adaptive rational egoism is a core component of the optimising model of bureaucracy articulated in chapter 11.

Secondly, a genuinely probing account of the trajectory of institutional change cannot avoid a subjective assessment of the intentional human agency which lies behind and fuels such developments. To turn the orthodox criticism of the use of qualitative data on its head: explanations of the impact of bureaucratic agency which rely solely upon testing aggregated quantitative data against a series of dependent variables, and which therefore fail to capture the complex normative preferences of individuals, are unsatisfactory. Such analyses reify surrogate measures of outcomes, and infer that political actors lack the ability to intentionally shape institutional boundaries. Moreover, they provide no means of gauging the relative influence exercised by various political and bureaucratic stakeholders over a given course of events. In the context of this project, it is difficult to chart the course of structural reform without recourse to the preferences of particular ministers and bureaucrats: the departments did not reform themselves in any ontological sense. But as rational choice institutionalists correctly acknowledge, individuals' preferences and utility structures are agency-specific. The correct queries to raise, then, concern the heterogeneous motives of those who were most proximate to and senior within the organisations in question, and the relative leverage over decision-making exercised by the relevant actors.

That point suggests a third reason for questioning the rational egoist assumption. Unless one is prepared to assume (in the interests of parsimony) that each discrete bureaucratic choice is predicated upon self-interest, at some point questions concerning particular individuals' motives must inevitably arise. How otherwise (especially if one accepts that, while not without merit, the rational choice notion of revealed preferences is imperfect) could Roger Sowry's preferences regarding organisational design, or Alf Kirk's position on the respective merits of virtual *vis a vis* structural integration, be known? Clearly, Sowry's enthusiastic advocacy of structural integration revealed a preference for that particular course of action, just as Kirk's caution on the matter revealed a different preference, but in neither case could a fully detailed sense of the logic which lay behind each man's preferences be deduced from his observable choices. A truly comprehensive profile of the reasons behind, say, Alf Kirk's stance on structural change would have to (and did) include Kirk's own personal views on the issue.

3.3 in support of the interview

In this regard, Sen has endorsed the incorporation of 'sources of information including introspection and discussion' into accounts of the motivational bases of human conduct (1977, p. 342). Sen's view, which is that such sources become indispensable once the rational egoist postulate is dismissed (or revised, as is the case with the optimising model advanced in this dissertation) as the sole explanation for human agency, is endorsed in this study, and explains my extensive use of qualitative data throughout the thesis. If it were incontrovertibly the case that all individuals are solely driven by the prospect of personal gain (pecuniary, near-pecuniary or work-related), then the question of what motivates people *would* become redundant. In such circumstances inquiries could quite legitimately be concerned exclusively with revealed indications of the success or failure of maximising conduct. Researchers could dispense with the first of Niskanen's and Dunleavy's assumptions and focus solely on the second. However, following Mueller's position on adaptive rational egoism, I do not accept that such is the case, and in this research, thought it appropriate to probe the preferences and motives of the relevant political actors.

If Sen is right, then in the interests of establishing an individual's behavioural motivations it is proper that qualitative data of a reflexive and discursive nature be taken into account. In this research, quantitative measures, such as those used in chapters 6 and 8, served useful purposes, but alone they would not have allowed me to (a) establish the motives of the relevant bureaucrats and politicians (acting either individually or collectively), or to (b) construct a profile of the journey of institutional change which stemmed in considerable part from those preferences. Therefore, those data were supplemented with the information contained in the spoken contributions of the ministers and officials who drove the National/New Zealand First coalition's Employment Strategy.

The rational choice tradition views the self-reported expressions of social actors as a data source of dubious distinction. However, there is much to be gained by including a subjective consideration of the 'actual preferences of individual civil servants [and politicians]; [of] how individuals construct, deconstruct and reconstruct the decision-making context in which they are operating; and how they assess the likelihood of various outcomes' (Marsh *et al.*, 2000, p. 465). Clearly, in an *ex post* reconstruction of events bureaucrats or politicians 'may be mistaken or li[e] about their preferences and reasons for taking a particular action' (Marsh *et al.*, 2000, p. 465). In the course of this research, however, I came across no extensive or conclusive evidence that ministers and officials systematically have recourse to dishonesty when being interviewed. I did, of course, come across differing

interpretations of events, and instances in which interviewees attributed more or less significance to particular events or decisions, but such is the stuff of politics and public policy, and those occasions (and they were relatively few) gave rise to reflection and measured interpretation, rather than to a sense that people were being wilfully obfuscatory.

That was especially the case in the latter stages of the thesis, when I assessed the significance to the Employment Strategy of G5, the Cabinet Committee on Strategy and Priorities, and Cabinet. Because they are constructed artefacts, the impact which institutions within the political executive have on political outcomes cannot easily be captured by quantitative measures alone. Certain measurable or otherwise tangible variables (such as the numerical representation of each coalition partner on each institution, attendance at meetings, and voting rules) would have provided some guidance on potential outcomes, but first principles rational choice would not have been able to model the trajectory of the Employment Strategy without reducing much of the immeasurable quality of politics to parsimony. Instead, the institutional focus of the research required the views of the participants themselves.

Finally, it seems to me that an appreciation of the subjective assessments of those who are central to processes of institutional change is the best means of coupling such episodes with the very agents whose motives and actions are the driving force behind organisational reform. That view is inconsistent with the orthodox rational choice preference for exogenising institutions, but it is compatible with efforts to fully endogenise the relationship between individuals and institutions. Increasingly, and rightly, the contribution which political actors themselves can make to analyses of institutional reform is being acknowledged. That is certainly so in this research, and explains why this dissertation combines both the interpretations of ministers and officials *and* quantitative measures of observable outcomes in an effort to explain what was a truly spectacular chapter in the history of the New Zealand public service.

Appendix 2 - the Coalition Agreement

Policy Area: Employment

Statement of General Direction:

- The key objectives of the National-New Zealand First Government's employment policy will be reducing the percentage of job seekers who are long term unemployed, and involving job seekers while they are unemployed in part-time community work and training. Regions will be given greater influence over how these and other employment goals are met.
- It is accepted that as a general principle, it is economic policy, as distinct from employment policy, that determines the numbers of employed.

Key Initiatives of Policy:

Introduce programmes over the term of the Parliament that required registered unemployed to undertake a prescribed level of work or training in return for the unemployment benefit by replacing the unemployment benefit with an equivalent community wage or training allowance. The first priority for the programme will be addressing long term unemployment.

Accept in principle the integration of the New Zealand Employment Service, the unemployment benefit division of the New Zealand Income Support Service, the Community Employment Group and the Training Opportunities Programme's (TOPs) resources of the Education and Training Support Agency into one Employment Service. Other employment focused resources may also be absorbed. Whether this is a standalone service or part of the Department of Social Welfare shall be considered as options.

To assist in the development of a more regionally driven approach to achieving employment policy objectives, Regional Employment Commissioners will be established. The Regional Commissioners will be responsible for producing Regional Employment Plans. They will be advised by Regional Employment Committees.

The main outcomes sought by this approach will be on reducing the percentage of long term unemployed, and maximising the involvement of job seekers in suitable part-time community work or training.

Fiscal Implications of this Policy Agreement:

1997/98 - \$60 million

1998/99 - \$80 million

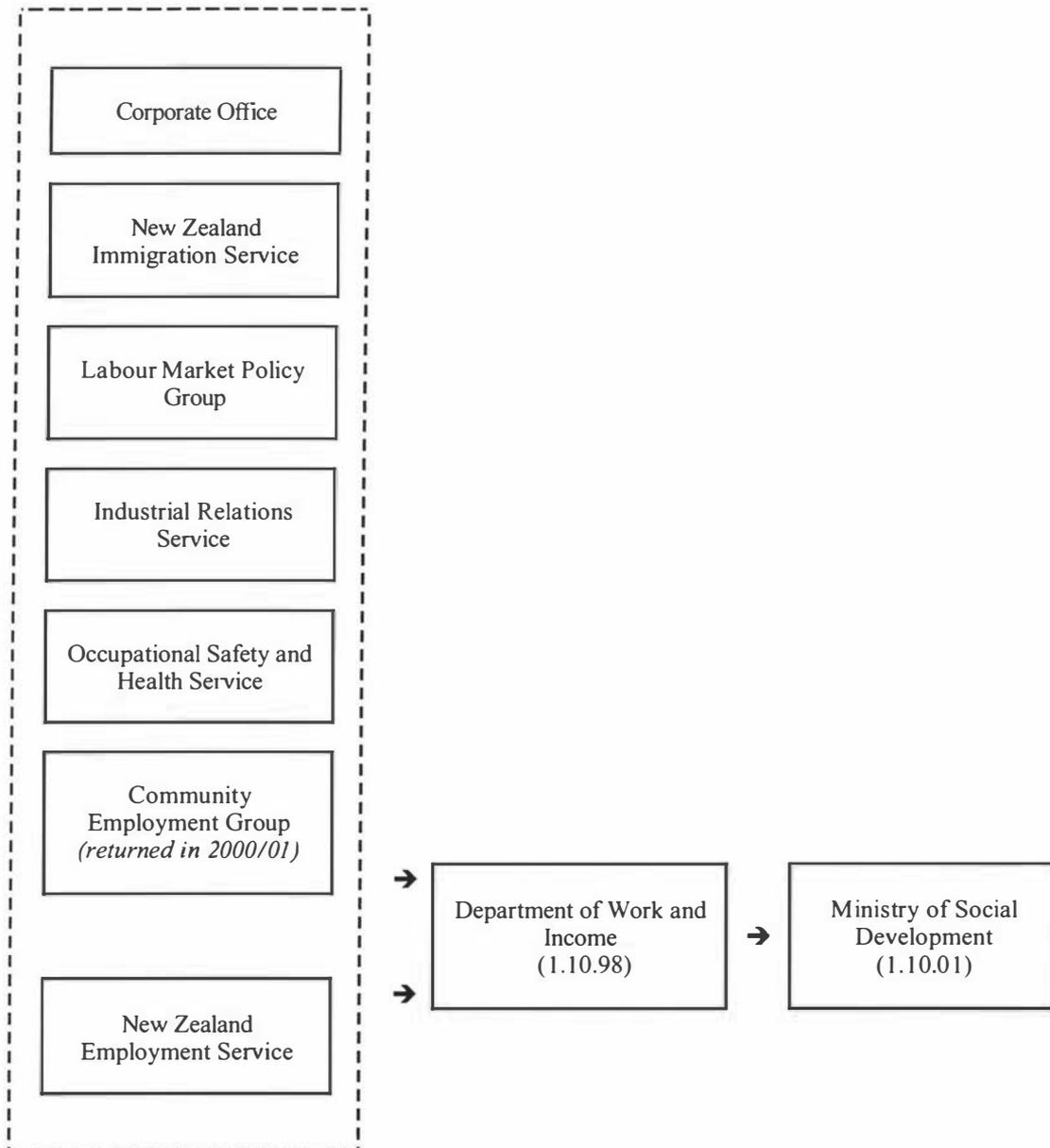
(All funding proposals subject to being considered within the agreed spending policy parameters.)

Legislative Implications of this Policy Agreement:

(none specified)

Appendix 3 - Structural change in the Department of Labour

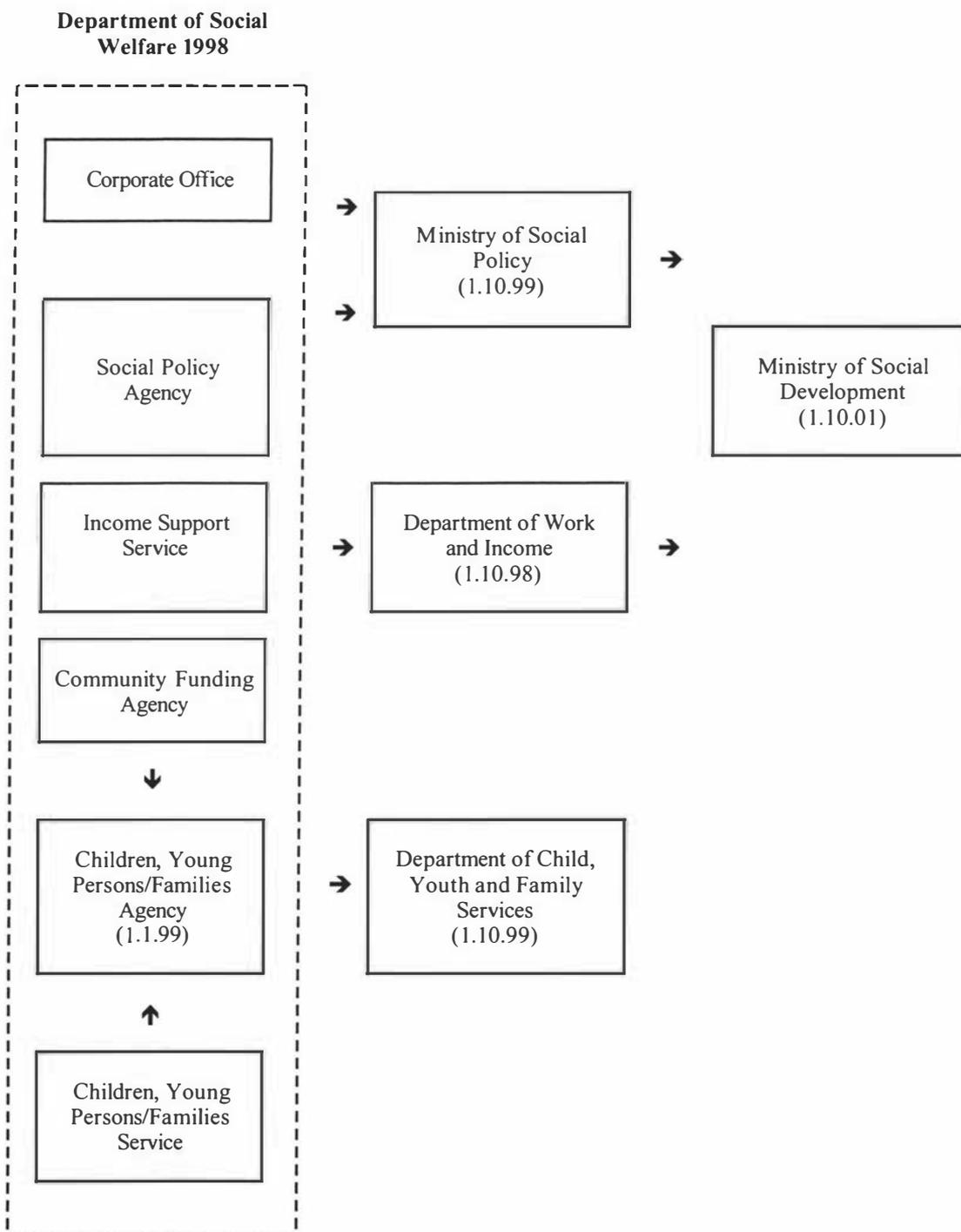
Department of Labour 1998



Notes

1. Dates in parentheses indicate date of creation of agency.

Appendix 4 - Structural change in the Department of Social Welfare



Note

1. Dates in parentheses indicate date of creation of agency.

Appendix 5 - Interview schedule

1 Challenges to policy co-ordination under coalition conditions

- what is your sense of the policy challenges associated with defining and maintaining a collective interest during periods of coalition government?
- what are your views on the extent to which policy contests between ministers from different parties have impacted upon the coherency of policy development?

2 Relationships between chief executives and ministers/Cabinet

- did the operation of a multi-party Cabinet pose particular issues in terms of the relationship between chief executives and individual ministers?
- does multi-party government increase the potential for tensions within Cabinet to filter into the public service?
- did coalition government pose specific pressures/challenges for the central agencies in terms of the co-ordination of policy advice to the political executive?

3 Employment Strategy

- your assessment of the effect of the SSC-coordinated procedures on the coalition negotiations?
- what impact did the lack of direct contact with ministers have upon the process?
- did departments' responses have a bearing on the content of Coalition Agreement?
- did the release of the Q&As have any bearing upon relationships with ministers?

- your sense of the positions taken within Cabinet on the Employment Strategy?
- did these impact upon the process/timeframe for development of officials' advice?
- what were the critical factors in the Cabinet's decision to proceed with:
 - full structural integration?
 - a department, rather than a Crown Entity?
 - a relatively short time-frame for implementation?

- advice concerning the Employment Strategy
 - what was the thinking behind the DSW's support for full integration?
 - what were the differences between departments over issue of organisational form?
 - what was the DSW's position on the preferred location of the new integrated agency?
 - what were the DSW's preferences over policy function/capacity of the agency?
 - what were the DSW's preferences re contestability of service provision?

- what challenges has the implementation of the Employment Strategy posed for you?
 - implications for your department of the structural relocation of the Income Support Service?

4 Further structural reform

- your thoughts on the need for further structural revisions within the public service?
- your assessment of merits of greater structural integration of policy and delivery?

- the State Services Commissioner has warned against hitting the 'restructuring button', and has suggested that the benefits delivered through restructuring have/can be over-estimated
 - your thoughts/reflections?

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Errata

- p. 20 'National party' should read 'National Party' (para. 1, line 5)
'National party' should read 'National Party' (para. 1, line 8)
- pp. 31-32 'three year' should read 'three-year' (para. 3, line 7)
- p. 62 'borne' should read 'born' (para. 3, line 6)
- p. 63 sentence should read 'A DSW official maintains' (para. 3, line 2)
- p. 64 'Responsible minister' should read 'responsible minister' (para. 4, line 6)
- p. 66 'Labour party's' should read 'Labour Party's' (f/n 17, line 1)
- p. 71 'Young Job-Seeker's' should read 'Young Job-Seekers' (para. 2, line 6)
'Young Job-Seeker's' should read 'Young Job-Seekers' (f/n 20, lines 10/14)
- p. 82 'amongst' should read 'among' (para. 1, line 13)
'group [and] also' should read 'group ... [and] ... also' (para. 1, line 14)
- p. 84 'implementers [of public policies] but' should read 'implementers ... [of public policies] ... but' (para 1, line 7)
'rent-seeking' should read 'rentseeking' (para. 1, line 9)
'rein in' should read 'rein in' (para. 2, line 17)
- p. 95 'such as way' should read 'such a way' (para. 1, line 3)
'egotist' should read 'egotist' (para. 1, line 5)
'maximising' should read 'maximizing' (para. 1, line 7)
- p. 119 'unconfirmed' should read 'unconfirmed' (para. 1, line 9)
- p. 130 sentence should read 'the Department of the Prime Minister and Cabinet' (para. 2, line 7; f/n 18, line 1)
- p. 132 'uninterested' should read 'disinterested' (para. 1, line 8)
- p. 136 fullstop should be used in place of colon following '446,649:' (para. 1, line 8)
- p. 138 'New Zealand's system of government' should read 'New Zealand government' (para. 4, line 6)
- p. 139 'rein in' should read 'rein in' (para. 2, line 4)
- p. 140 'More generally, it ...' should read 'More generally it ...' (para. 3, line 10)
'(1987, p. 75)' should read '(1987, vol. 1, p. 75)' (para. 3, line 12)
- p. 146 'patters' should read 'patterns' (para. 3, line 8)
- p. 164 '(Dunleavy, 1991, p. 203)' should read '(Dunleavy, 1991, pp. 202-203)' (para. 2, line 16)
- p. 170 'theorised an revised' should read 'theorised a revised' (para. 2, line 1)

- p. 184 'as [having] being' should read 'as being' (para. 3, line 6)
- p. 205 're-examine' should read 'reexamine' (para. 3, line 9)
- p. 251 'pp. 950' should read 'p. 950' (para. 3, line 5)
- p. 266 sentence should read 'the Department of the Prime Minister and Cabinet' (para. 2, line 4)
- p. 276 add to Appendix 5:

| Interviewee | Date of interview |
|------------------------------|----------------------------------|
| Carl Bakker | 27 May 1999 |
| Dame Margaret Bazley | 26 November 1998 |
| Rt. Hon. William Birch | 30 March 1999 |
| Rob Brown | 17 December 1998 |
| John Chetwin | 15 October 1998 |
| Rt. Hon. Wyatt Creech | 9 December 1998 |
| Hon. Brian Donnelly | 30 March 1999 |
| Joy Hames | 9 December 1998 |
| Alf Kirk | 26 November 1998 |
| Hon. Peter McCardle | 9 December 1998 |
| Simon Murdoch | 20 August, 1998; 9 November 1998 |
| Rt. Hon. Sir Geoffrey Palmer | 18 June 1998 |
| Rt. Hon. Winston Peters | 9 December 1998 |
| Marie Shroff | 19 November 1998 |
| Hon. Roger Sowry | 4 December 1998 |
| Hon. Simon Upton | 20 May 1999 |
| Susan Shipley | 20 May 1999 |
| Tracey White | 27 May 1999 |

- p. 298 '*Lesson and Challenges*' should read '*Lessons and Challenges*' (reference to Scott (2001))