

Getting better but feeling worse? Public sector reform in New Zealand

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Abstract

In the author's view, a price has been paid for the overly narrow theoretical framework used to design the state sector reforms in New Zealand. According to Gregory, the way ahead must be informed both by more eclectic theoretical input, and also by closer dialogue between theory and practice. He argues elsewhere that the state sector reforms in New Zealand, especially in their application to the public service, have been too 'mechanistic', and too blind to the important 'organic' dimensions of public organizations. They have focused too much on physical restructuring, attempting to reduce the complex, vital, and dynamic reality of governmental processes to essentially artificial dualities, such as 'outputs' and 'outcomes', 'owner' and 'purchaser', 'funder' and 'provider'. They have tended to ignore the less quantifiable and more holistic elements that in New Zealand underpinned a strong culture of public service trusteeship. He concludes that it is difficult to be persuaded that reform has all been for the good. © 2000 Elsevier Science Inc. All rights reserved.

1. Introduction

It has become a cliché to say that the New Zealand state sector reforms have been more radical and comprehensive than those in any other OECD country, and have attracted a huge amount of interest from academics and practitioners in other countries. It is, however, extremely difficult to offer any objective and conclusive assessment as to their success or failure.

The main objectives of the changes were to enhance both the efficiency and accountability of the state sector. But both of these terms are rhetorical rather than strictly operational, at

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least when any attempt is made to measure them in general rather than specific terms. For example, it might be concluded that particular service components are delivered with equal or more effectiveness and at less cost than before the reforms, but it is much harder to assess whether the state sector as a whole or the public service is more efficient overall than before. How can we know? Merely looking at the dramatic drop in the numbers of public servants is clearly misleading on at least two counts. First, many people who formerly were employed in the public service as such may now be either working in crown entities that carry out these tasks, but which are now not part of the public service. Or many others may be working not on an 'in-house' basis but as outside consultants and service-providers. And when we look more closely at particular functions undertaken by the revamped state services there are examples of apparently better performance than in the past, but equally there have over recent years been quite a number of well-publicized cases of poor performance. So is it possible to conclude that the New Zealand taxpayer now gets much better value for money than was the case under the old public service?

The picture is similar in regard to accountability (little is said about the more challenging notion of responsibility). Accountability is a concept with multiple, often interconnected, meanings. The main meaning used in the context of the New Zealand reforms is that executives and managers in the state sector now have much more 'freedom to manage' but are also required to report more accurately and systematically on their performance and the performance of those employees who report to them (for whom they are accountable). This expectation is spelled out in the aphorism of 'letting managers manage, and making them manage'. It was all part of the drive to ensure that the reformed state sector would be much more results-oriented than was its more rule-bound, bureaucratic predecessor.

It is plausible to argue that managers in the state sector are now more accountable than before, if the measure of accountability is the existence of formalized performance-setting and assessment regimes. Yet when people speak of accountability they may also mean the extent to which officials are willing to publicly accept the consequences that they feel should flow from poor performance as well as the kudos that comes with good performance. (The 'heads should roll' demand.) In this sense little seems to have changed, if the virtual worse case scenario of Cave Creek is anything to go by. Some say that this tragedy could not have occurred had an organization like the former Ministry of Works and Development still been carrying out its responsibilities in regard to state construction work. Be that as it may, my argument is that Cave Creek amply demonstrated that top public officials are indeed human; they are as likely as anyone else to do whatever they can to put the best possible complexion on their own shortcomings, even under circumstances where there was supposed to be a much clearer practical demarcation than before on who was accountable (responsible?) for what (Gregory, 1998; 1998a). I think the most that can safely be said about the aspiration for enhancing the accountability of New Zealand governmental officials is that there remains, as ever, no room for complacency.

Most assessments of the state sector reforms in New Zealand (as elsewhere) are essentially ideological (Pollitt, 1998), rather than scientific. They can hardly be otherwise, since any comprehensive and systematic attempt to generate scientific objectivity in this endeavor would inevitably collapse under the weight of its own complexity. Fortunately, it is also highly unlikely that any such exercise will be attempted, unless by some zealous academic

researcher. Nevertheless, it is unfortunate that efforts to evaluate the reforms often trade in stereotypes and popular images, and are disappointingly facile.

Before the reforms the public service was often portrayed in images of Sir Humphrey Appleby, of 'Glide Time', or 'Gliding On', of woolly cardigans, long tea breaks, bureaucratic inflexibility, red tape, inefficiency, wastefulness, and desperately inadequate financial management.¹ Conversely, critics of the new regime may draw images of immaculately suited, cell phone-carrying, relentlessly driven and efficient managers, scything through unnecessary bureaucratic regulation with a vigorous commitment to getting the job done in ways that are driven more by self-interest than public service. There is, of course, something approximating the truth in all these caricatures, but they are caricatures nonetheless. (It seems that the script writers cannot miss: having lampooned former public servants in 'Glide Time' and 'Gliding On', New Zealand writer Roger Hall has since satirized, in a further television series called 'Market Forces', the stereotypical management zealots who are seen to have replaced them.) Stereotypical representations and ideological standpoints commonly depict anything to do with the old as necessarily bad, and anything to do with the new, especially under the acronym NPM, as unquestioningly good.

All systems, old and new, have their own strengths and weaknesses. For my part, I do not believe that New Zealand governmental processes were undeniably better before the reforms, but I remain unconvinced that on balance they have become indisputably better since. For example, I do not want to say much about the issue that has attracted a fair amount of critical attention – the argument that purchasing imperatives have tended to supercede ownership ones, putting the longer-term capacity of the public service at risk. A 'then and now' perspective does not get us very far, since it leads to an invidious comparison between, on the one hand, wastefulness in the short-run and sustained capacity in the long-run, and on the other hand the converse of that. The really important question for the present and future is how to minimize wastefulness and inefficiency while simultaneously maximizing long-term institutional capacity. We cannot move back to the old, even if it were desirable (which it is not).

So evaluation is a matter of perception, judgment, evidence, and opinion. In my view, when assessed against the rhetoric used to justify them, the state sector reforms have created major unintended consequences. Some of these, as reverse effects, are almost the polar opposite of those promised. In elaborating this position I wish to say little about what I think are the biggest success stories of New Zealand's public sector reforms, namely the huge improvements in financial management and accounting, and the use where appropriate of the state owned enterprises model. (I believe that the application of this model to public radio and television has been quite inappropriate.) To balance this unfair omission I will say only a little about the one aspect of the reforms that I find almost risible. This is what I call 'false customization' – attempts to create a new 'customer-driven', quasi-marketized model of public service delivery. The 'transformation' of so many New Zealanders from citizens of the political community into 'customers' or 'clients' of various agencies, most of which have been keen to adopt the trappings and ambience of private business corporations, is bemusing, to say the least, and in the case of the Department of Work and Income (or WINZ, as it has preferred to call itself) has been almost terminally delusional. In my view, the rhetoric of private management is inappropriate to most dimensions of public service, where the

provision of service is not and cannot be disciplined by market forces, whether real or quasi, where public organizations do not and cannot have full authorship of the policies they implement, and where their financial resources are authorized by Parliamentary appropriations and not provided by private patronage. Whether or not it is dressed up in the language of ‘freedom to manage’, ‘empowering’ operators and managers in public organizations implies a consequential ‘disempowerment’ of the political executive. But (as elsewhere) political executives in New Zealand are invariably held responsible by the public when things go awry, and do not readily welcome ‘disempowerment’. Political controversies that have beset the public sector recently confirm that the ‘arms-length’ principle promoted by the governmental reforms has in no way diminished public expectations of political responsibility. The new government seems to be responding accordingly.

The two dimensions of the reforms that I wish to discuss, especially in light of the doctrine of unintended consequences, are what I have labeled (1) better management, and (2) contractualism, ‘corruption’, and legitimacy. I make my comments largely in regard to the public service as such, rather than the wider public sector. To conclude I would also like to appeal for a much more eclectic approach in thinking about how we move on from where we presently find ourselves.

2. Better managed?

In his assessment of the New Zealand reforms Schick (1996: 7) observed that, ‘. . . there is near universal agreement that New Zealand government is much better managed now than before.’ That agreement is probably well founded. But ‘better managed’ is a very limited, even ambiguous, appraisal. Schick says a good deal about the values that are actually enhanced by ‘better management’, notably those clustering around the idea of accountability, but he has much less to say about those values that lie outside the scope of, or might even be diminished by, ‘good management’. Such values include, for example, fairness, justice, humanity, impartiality, effectiveness, democratic inclusiveness, cultural awareness, and many others that should be germane to any assessment of public service performance.

Schick’s argument seems to be that the public service is more *controlled* than it was before the reforms. Saying that it is ‘better managed’ is rhetorically more appealing than saying it is better controlled, and much more appealing than saying it is more *bureaucratic* than before. Yet what is good management about if it is not about control, and what is bureaucracy about if it is not about control (Weber, 1968; Hummel, 1994)?

The difficulty is that ‘bureaucracy’ commonly means many different things, virtually all of them judged to be undesirable, while ‘good management’ also means many different things, all of them deemed desirable. Moreover, bureaucracy is more commonly identified with the public sector, while ‘good management’ (until the reforms) was largely identified with the private sector. The reformers sought to apply orthodox ‘good management’ ideas to public sector organizations, which in their eyes had become deformed by the excesses of hierarchical, rule-bound, bureaucracy, self-absorbed in process rather than committed to achieving results.

They were right. The New Zealand public service was undoubtedly bureaucratic, in this

sense. However, they were unable or unwilling to see that while Max Weber depicted the classical bureaucratic model as the typical organizational form of the modern age, what he interpreted as the historical process of bureaucratization (or rationalization) embodied much more than organizational form. At its heart lay the inexorable impulse to organize human affairs according to impersonally mandated rational norms – usually manifest in the form of law, rules, regulations and the like. Seen in this light New Zealand's state sector reforms have not debureaucratized the state sector. Instead, they have replaced one dominant manifestation of bureaucracy with another.

This is not to say that the replacement of rule-focused bureaucrats with management-oriented bureaucrats should be derided as only a small feat. It is actually well worthy of the international acclaim it has received, from management-focused observers. For me, however, the compelling questions relate to the huge procedural apparatus deployed to ensure that accountability is enhanced at the same time as managers are freed to manage. This apparatus sustains the profoundly bureaucratic character of public management in New Zealand.

Max Weber argued that bureaucratization involved the ever-increasing calculability of technical knowledge in all its various forms, but notably so (as an essential component of the development of modern capitalist enterprise) in the fields of law and accounting. I want to briefly discuss two main examples of managerial bureaucratization. The first is the dramatic growth in contractualism in the public sector, especially in the field of personnel policy, but also in regard to the out-sourcing of goods and services. Contractualism represents the new face of public bureaucracy. Its *raison d'être* remains, as always, organizational control—without which bureaucracy ceases to be bureaucracy and collapses into chaos.

In New Zealand the question is well worth asking: which face of modern bureaucracy is the greater drag on the resources (in all forms) necessary for the effective performance of public service organizations? Is it the administration of rules and regulations that inhibit flexible and innovate personnel management, or is it the management of performance assessment and contractual appointments that might enhance flexibility but generate heavy transactions costs? Putting it another way, is it now easier to deal satisfactorily with underperforming public officials, or more difficult? The question is also worth asking as to whether the public service is now less bureaucratized as a result of the increase in the out-sourcing of goods and services, assuming (tentatively) that the necessary controls over standards and propriety are in place. I cannot offer definitive answers, and raise the questions to suggest that it is plausible to argue that the New Zealand public service is now at least as bureaucratized as it was before the changes were implemented.

In this connection it is interesting to note that the State Services Commission (1999), in reviewing the public service accountability regime, has expressed concern over the fact that while 'incremental accretions' over time have led to a 'highly complex' accountability system, it is 'difficult for Ministers and Parliament to get an overview of the health and performance of a department', and that 'important information is not captured by the formal documentation, despite additional requirements over the past few years'. This suggests that the drive to enhance 'transparency' can create its own paradox: an inability to see the wood for the trees, or a situation where more information is available but less knowledge. The lines from T. S. Eliot's, *The Rock*, spring to mind: 'Where is the wisdom we have lost in knowledge? Where is the knowledge we have lost in information?'

Then there is the issue of measurement. There is considerable truth, according to the logic of bureaucracy, in the saying, ‘if you can’t count it it doesn’t count’ (or, ‘if you can’t measure it you can’t manage it’). But it is ironic that debureaucratization should be spoken of in the same breath as the need to enhance both the scope and accuracy of measurement as an essential management tool. Measurement is the essence of bureaucratic calculability. The paradox of measurement holds for many public service functions. That is, the stronger the attempts to measure the inherently incommensurable the more such quantification tends to become a substitute for judgment, experience, and common sense in the governing process. This phenomenon has been around for ages, and was conceptualized decades ago under the sociological label of ‘goal displacement’, by which means tend to become ends in themselves (Blau, 1963; Merton, 1952).

As I see it, the New Zealand Public Finance Act’s delineation of outputs as a category distinct from outcomes is probably the purest statutory prescription for goal displacement existing in any of the so-called western democracies. It generates incentives for energies to be concentrated on producing outputs (which are generally measurable) rather than on outcomes (which are often much less so). So the question is: to what extent have we been developing rigorous management and/or rigorously irrelevant management? Examples? Rather than offering particular ones I instead refer to a report last year by the Controller and Auditor-General (1999), who saw gaps in the commensurability of policy outcomes as being a problem needing to be fixed, in the interests of better Parliamentary oversight of the executive. The argument in one sense is indisputable, since we need to be able to gauge results in order to make sensible decisions about the efficacy of our policies. Facts and figures are the very life-blood of decision-making. In the ‘Closing the Gaps’ initiatives taken by the incoming government departmental chief executives will be under great pressure to demonstrate the effectiveness of their efforts to improve outcomes for Maori. Rates, percentages, and various other calculations will abound in the assessment processes. However, genuine accountability needs to be fostered by a variety of means, other than a preoccupation with the rational-linear approach of objective setting and measurement, which is simply not sensibly feasible in many areas of public service activity. I doubt if it is sensible to apply a ‘production’ model to tasks like social or probation work, for example (Gregory 1995, 1995a; Wilson, 1989), and suspect there could be more genuine accountability gains if the research and investigative resources available to Parliamentary select committees were strengthened. Channels of communication between politicians, officials, and citizens must be plentiful and workable, relaying information in a whole variety of different forms. Number-crunching on computer screens, as important as it is, is no substitute for wise and genuinely informed governance. To be ‘better managed’ is not necessarily to be better governed.²

The encouraging aspect of all this is that effective and able officials will get on and do the job as best they can, using their energy, skill and intelligence to try to work their way around contextual constraints placed on them, when they find those constraints oppressive or irrelevant. T’was ever thus, and I have no doubt remains so. (As with obsessive corporate planning: draw up the plans, then put them in the bottom drawer and get on with the job in hand.) But is it not a pity that so much time and energy is expended on ultimately elusive, if not downright futile, attempts to ensure accountability through performance *measurement*? As (Sir) Roger Douglas once said: ‘there’s got to be a better way’.

3. Contractualism, ‘corruption’, and legitimacy

Much has been written about the limits to contractualism in the out-sourcing of goods and services, especially policy advice, about the means of ensuring ethical probity and standards, and about the whole question of transactions costs (for example, Boston, 1994, 1995; Kettl, 1993; OECD/PUMA/PAC, 1999; Ormsby, 1998; Peters, 1996). Here I wish to say something about the possible adverse consequences, even reverse effects, of contractualism in personnel policy, that is, the appointment of senior public servants on renewable term contracts—in New Zealand, of five years’ duration. This contrasts with the ‘relational contracts’ that characterized the prereform era when officials were essentially permanently tenured.

Lane (1999) argues that there are some major theoretical problems with contractualism, based as it is on the application of agency theory (principal-agent relationships) to governmental systems. He suggests, among other things, that a sort of ‘prisoner’s dilemma’ operates, in which both principals and agents tend to behave opportunistically to maximize their respective advantages. In doing so both parties are inclined to focus upon the formal terms of the contract rather than upon what the [work] situation requires. While not referring specifically to New Zealand Lane observes that, ‘Agents seem to have been very successful in avoiding signing boiling-in-oil contracts, as seen from the frequent occurrence of very lucrative compensation schemes when agents are in fact fired.’ Some of the public controversies in New Zealand during recent times have focused upon governmental appointees who appeared to be in a win-win situation, when the only way they could be removed from their jobs was by paying them large ‘golden handshakes’. Contractualism can thus become something of an end in itself, consuming huge amounts of time and effort, and creating perverse behavioral incentives that do little to guarantee more competent and effective management. (I may reassert the point made above about contractualism replacing traditional hierarchical rule-driven bureaucracy with the legalistic bureaucratization that lies at the heart of contractualism.) A similar point has been made by Hood (1998). He likens the British and New Zealand implementation of the ‘business practices’ of contractualization in senior public service employment to the game of ‘Trobriand Cricket’, whereby the effects of doing so have been quite different from those anticipated by the reformers.³

An ethos of mutual trust and fairness can be supplanted by one of self-seeking opportunism – rationalized on the grounds that, ‘everyone’s doing it so I’d be a mug not to join in’. The New Zealand experience gives some pause for thought to adherents of public choice interpretations of bureaucratic behavior. There is no space to delve into this here, except to suggest that the ‘contractualist game’ may be played in ‘remuneration shaping’ ways that add texture to public choice interpretations of ‘bureau-shaping’ behavior (Dunleavy, 1991).

As mentioned earlier, in caricaturing the former public service, reformers often used the stereotype of Sir Humphrey Appleby (Borins, 1988). Under a contractualized system, however, we in New Zealand are entitled to ask whether the manipulative, reactive, machinations of a Sir Humphrey are to be deplored more than the legalistic, litigious, culture in which top public executives now operate, especially in the field of crown entities, derived as it is (in part) from the former public service. If it is not, then it is ironical that the reformers may have helped to create a manipulative, self-interested public sector culture—one that

they believed they were getting rid of, but which, because it was based on a stereotypical caricature, did not really exist in the first place.

In the emerging new culture a principal casualty is trust. This is not only the trust that must underpin an effective relationship between ministers and their chief executives (in the case of government departments), but also the public's trust in its governmental institutions. This is especially so when exorbitant payments to departing public executives contrast starkly against the marginal wage increases paid to large sections of the workforce in both the public and private sectors.

However, the main problem, I suggest, stems from agency theory's founding assumption that all individuals are self-interested utility maximisers. This belief tends to become a self-fulfilling prophecy, when it is foundational to institutional engineering, as it has been in New Zealand. Mistrust fosters mistrust. In short, does the application of agency theory diminish the impact of 'moral hazard' and 'adverse selection', or does it enhance it? A conservative response based on the New Zealand evidence would be to say the jury is still out.

In the light of the New Zealand experience it is hard not to agree with Lane's conclusion that NPM contractualism needs to be supplemented by management approaches based on trust, as well as by traditional bureaucratic mechanisms. The organic generation of relational trust is essential in the culture of mechanistic legalism that pervades today's governmental organizations.

For most of the 20th century the pay rates for New Zealand's top government officials were justified, mainly implicitly, by a mix of what Peters and Hood (1994: 222) call the *representativeness* and *alimention* criteria. The former, harking back to classical democracy, is based on the belief that the lifestyle of high public officials should be generally representative of that of citizens in general. The latter notion says they should be rewarded with a comfortable upper-middle-class living, in order to shield them from corrupting temptations and to help ensure that they are not distracted from the onerous burdens of statecraft. Probably the representativeness criterion was stronger, being consistent with the country's dominant egalitarian norms (see Lipson, 1948).

The expectation that higher rewards will necessarily reduce the likelihood of corruption is problematical. What actually constitutes corruption in this context is largely a matter of public definition (which is why I have placed the term in inverted commas in the subheads). Corruption may not just be the incidence of individual malfeasance, such as fraud or bribe-taking, but may also be interpreted as profligate, though technically legitimate, spending by and remuneration of government officials, particularly in the form of large contractual 'buy-outs'. It is also possible that a culture of higher (and less visible) rewards for top government executives tends to foster greed, with more and more money never being quite enough, and in which competition for rewards and perks becomes a central part of managerial culture. If such behavior is perceived to be corrupt, unethical, or inequitable, it will have real consequences, notably the undermining of public trust and confidence in the integrity of public executives. Having said that, corruption may also be perceived as shirking time-serving on the part of public officials, gross inefficiency, or the sort of venial misappropriation of public resources for private use, particularly among lower level operators. To that extent the image of New Zealand's traditionally corruption-free public service may have

been overdrawn. Perhaps what we are now seeing is better understood not as a growing incidence of corruption per se, but as a shift in the locus and nature of perceived corruption: from generally venial corruption in low places to a form of perceived remunerative corruption in higher places.

In New Zealand the state sector reforms drew upon the third criterion presented by Peters and Hood, the *market* criterion, which is reflected in the ‘developing ideology... that top civil servants should be paid at rates similar to those of top business executives’. The rationale is that the government needs to be able to compete effectively in the market place of executive and managerial talent. However, in 1997 the government abandoned its policy of trying to directly link the remuneration of departmental chief executives to that of private chief executives, whose remuneration had risen in real terms by about 130% in the previous several years, compared to the 10% real term rise for top public servants. In 1988 the rates paid to the two groups had been almost on a par.

Notwithstanding this development, by the late 1990s the pay packages of departmental chief executives had not only increased very substantially in comparison with those formerly paid to permanent heads under the previous system, but had also increased markedly in comparison with the average New Zealand wage.⁴ Moreover, general public sector workers were having to be content with annual salary increases of up to only two or three percent; and under industrial legislation New Zealand workers in general had lost penal rates for work at nights and the weekends, access to employer-supported pension schemes, and special allowances. It is doubtful whether large sections of the New Zealand public, struggling to gain minimal wage and salary increases, have easily come to terms with the transformation.

Undeniably, public sector chief executives should be amply rewarded for the burden of responsibilities they carry. Perhaps they need to be paid at rates much higher in relation to the average New Zealand wage than those paid to former permanent heads, as a sort of *quid pro quo* for the loss of secure tenure. (In 1994 departmental secretaries in the Australian Public Service were offered a 20% pay rise at the time of their shift to fixed term contractual appointments.) However, political problems arise when top public officials are perceived to be receiving higher and higher financial rewards which in some cases, though relatively isolated, seem to bear no obvious relationship to their individual performances in the job. This is likely to be more of a problem in regard to public sector (especially public service) executives, precisely because of the inherent ambiguities and complexities in gauging their performance.

Consistent with the trend in OECD countries (Hood and Peters, 1994: 16) top New Zealand bureaucrats’ remuneration is no longer linked to that of politicians; all ministers are paid less than the chief executives of the main government departments who report to them, and several heads of government agencies earn considerably more than the Prime Minister. However, it is a moot point as to whether the overall New Zealand scenario is consistent with de Tocqueville’s (1946) ‘democratic parsimony’ thesis, that the more ‘democratic’ a political system becomes the more parsimonious will be its rewards for high public officials, and the more it will flatten relativities between those at the top and their subordinates. Clearly, it depends on how ‘democratic’ the New Zealand political system is thought to be. If Mulgan’s (1992) thesis is valid, that especially in the years after 1984 (and arguably before the advent in 1996 of proportional representation in general elections) New Zealand was an ‘elective

C i t i z e n s	HPOs		
	Strategy	'Open'	'Devious'
	Respectful Trusting	(1) RHPOs: visible and moderate Legitimacy: high	(2) RHPOs: less visible and higher Legitimacy: high
Cynical Disrespectful	(3) RHPOs: visible and lower Legitimacy: low	(4) RHPOs: less visible and higher Legitimacy: low	

Fig. 1. Citizen-HPO interaction over RHPOs.

dictatorship', then the growing gap between the rewards for high public officials and citizens at large would seem to fit de Tocqueville's thesis.

Those who believe in the need to transform public management in the image of corporate management often argue that unless the remuneration for top public officials is kept on relatively even terms with that applying in the private sector the quality of management in the public sector will suffer ('if you pay peanuts you get monkeys'). But if public service (as distinct from public sector management) has its own intrinsic value, which is not necessarily to be gauged in monetary terms, then it should continue to attract top quality people who find those values compelling, despite the lower financial rewards—the so-called public service 'pay discount'.⁵ Conversely, if people are attracted to public service *only* because of the financial rewards then they might not be best suited—technically, temperamentally, or philosophically—for public service careers ('if you pay monkeys you get peanuts'; or 'if you get monkeys you should pay peanuts', rather than large golden handshakes). This scenario is exacerbated by the loss of public trust in and respect for what are likely to become underperforming governmental agencies.

Hood and Peters (1994: 9–12) provide a simple heuristic device, a two-by-two matrix of what they call 'Citizen-High Public Official (HPO) interaction' over rewards for high public office (RHPO). See Fig. 1. The matrix provides four possible outcomes of different strategies adopted by citizens on the one hand and HPO on the other. HPO can be either 'open' or 'devious', while citizens can be 'respectful and trusting' or 'cynical and disrespectful' towards the remuneration of HPO.

Hood and Peters claim that an economics-of-politics, or rational choice, perspective might expect 'a combination of opportunism, self-interest and myopia to push the system inexorably towards cell (4)', that is, a situation in which HPO are devious and citizens are cynical and disrespectful. They see this situation in former Eastern bloc countries, and some 'third

world' states. However, drawing upon the theoretical work of Douglas (1982), they argue that there are various cultural and institutional factors that work to inhibit what they call the 'tragic bias' towards cell 4 in other countries. They do not do so, but if their matrix were applied to the New Zealand case it could be argued that an attenuation of the egalitarian culture and a shift to norms of competitive individualism, together with the abolition of the centralized pay-fixing regime that prevailed for decades within the context of the unified career service for state officials, have contributed to a shift towards 'cell 4'.

There are other reasons for suggesting that New Zealand might have been experiencing a shift towards 'cell 4'. First, there is the possibly self-fulfilling impact of the economics-as-politics theories of political and bureaucratic behavior. Secondly, a collectivist institutional framework for remuneration setting has been replaced by a process of individually negotiated contracts. And thirdly, there was the antidemocratic, nonconsultative, and sudden manner in which the reforms were pushed through, at the behest of a small policymaking group. This virtually obliterated overnight the restraining potential of cultural and institutional factors. Consequently, there has been in New Zealand a huge 'cultural lag', as citizens have struggled to align their own attitudes towards government with the expectations and beliefs that underpinned the reforms. It is possible that once this social and political adjustment has been made higher levels of trust in governmental institutions might be restored . . . *ceteris paribus*. Currently, that situation seems some way off, to say the least.

I would also argue that the pay for performance regime implemented at the upper levels of the state services, including the public service, has generated more costs than benefits, especially in regard to public perceptions, and possibly also in terms of employee morale. As Ingraham (1998: 176) argues:

Pay for performance has not been a stunning success in any national setting and is more often considered a failure. The assumptions on which it was built – the centrality of financial incentives in public settings, the ability to clearly link performance to reward, and so on – have been discredited, most recently by the OECD [OECD, PUMA, 1996] . . . At the same time, many of the base assumptions of contracting for performance are exactly those of pay for performance: money matters a lot, more money matters more'.

In 1997, the government moved to strengthen the linkages between departmental chief executives' performance and their remuneration. It increased from 10% to 15% the proportion of their total remuneration package that is conditional upon performance. (Formerly too the percentage was calculated only on the base salary.) According to the State Services Commissioner (1998: 21), in his reviews of chief executives' performances 'the crucial factor' in assessing their pay is '[their] sustained performance in running departments and delivering upon the Government's objectives'. But in operationalizing this general aim it is by no means certain that the criteria outlined by Rainey (1998: 196) can be met, namely: a high level of trust within the organization, especially between leaders, managers, and subordinates; a performance rating system that employees consider fair and valid, often with relatively clear, accepted, and measurable performance indicators, and with the capacity to differentiate clearly between levels of performance; and adequate funding to fund appreciable pay increases for those who receive higher performance evaluations. At subchief execu-

utive levels pay for performance is devolved to individual agencies. There is no standardized process in place. Moreover, governments have been generally unwilling to provide the money needed to fund pay for performance. The upshot is that general state service workers have not seen ‘productivity’ gains reflected in their own incomes to anything like the extent enjoyed by those at the top. According to the retiring Secretary of the Ministry of Foreign Affairs and Trade (Richard Nottage), ‘if we don’t treat our employees better – and that means better pay and terms and conditions – then we risk losing more good people to the private sector (that’s if we can continue to attract them in the first place)’.⁶ There is a case for a more equitable distribution of remuneration through the differing layers of the public sector hierarchy.

Resulting from efforts to mimic the private sector a culture of personal opportunism may be encroaching on the values of public trusteeship that once lay at the heart of New Zealand’s system of public administration. I do not think that such concerns can be dismissed lightly as ‘the politics of envy’. Popular envy might indeed be a factor, but the consequences of envy, especially when allied with growing mistrust, are real.

This perception is strengthened by the diminished visibility of the remuneration packages paid to top public sector executives. Under the former system the precise salaries of all public service staff, were published annually, with easy accessibility in what was colloquially known as ‘The Studbook’. Similar publications were available for other large components of the wider state services. As far as I am aware these are no longer published. Instead, the remuneration paid to departmental chief executives is now published in a single source – the annual report of the State Services Commissioner. Precise figures are not provided, however, as total remuneration paid is listed in \$10,000 bands, and detailed figures on the make-up of individual packages are not provided (for example, the proportions of base salary and benefits in kind; nor of the types of benefits in kind). Moreover, the remuneration paid to top executives in crown entities is not registered in any single publication, and the annual reports of these agencies present such information in differing, and often incomplete, form. These remuneration packages, including severance pay, have generated most public controversy, and their opacity is usually rationalized on the grounds that details are the rightful business of the contracting parties only. This argument is clearly at odds with the reformist desire to make the expenditure of taxpayers’ money more transparently ‘accountable’.

The base salary is what Hood and Lambert (1994) refer to as the ‘iceberg tip’, while the ‘iceberg’ itself is the total remuneration package. They posit that in the face of base salaries increasingly eroded (*vis a vis* private sector salaries) by popular democratic pressure high public officials may be more able than before ‘to supplement their income in other, less visible, ways’.⁷ They suggest that if this is the case then ‘public scandals may recur more frequently and with greater intensity, testing and defining the acceptable boundaries of such behavior in each country’. Such icebergs, they conclude, ‘are capable of sinking the legitimacy of political systems’ (1994: 47). Consequently, in New Zealand the public sector appointments and remuneration process has taken on the appearance of a rather secretive, privileged, and self-protective club. In this it seems to differ little from the system under which permanent heads were appointed before the reforms.

Other factors might have reinforced public distrust and cynicism. Since the reforms there

has been a huge increase in the amount of policy advice contracted out to private consultants, many of whom had been formerly in-house public service employees. During the 1990s largely piecemeal and by no means complete information on the multimillion dollar sums of money paid for this advice has been generated by news media investigations under the Official Information Act and by Parliamentary questions. No full ledger is publicly accessible, if it exists at all. Consequently, citizens are left with the impression of a largely secretive consultancy ‘grave train’ fuelled by taxpayers’ money, producing highly priced policy advice that could often probably be provided more cheaply by in-house analysts performing to at least the same, if not better, standards. The fact that the information is not publicly available as a matter of course, and often has to be extracted from reluctant providers, who invoke appeals to its ‘commercially sensitivity’, raises further questions about the claim that the reforms have enhanced ‘transparency’. The news media has also been assiduous in publicizing examples of apparently profligate spending of taxpayers’ money on travel, and on highly priced office furnishings and refurbishments in a number of public sector domains.

Because, under NPM, government officials are expected to behave in an increasingly ‘businesslike’ manner, in a largely fragmented system of individual agencies, they are likely to be less acculturated in an integrating ethos of public trusteeship. Such an ethos helps sustain the legitimacy of state sector institutions, since it is founded on the understanding that they are owned ultimately by the *public* rather than by any particular government, whose ministers rather than being ‘owners’ or ‘purchasers’, are actually short-term trustees on behalf of the public.⁸ Nor does this ethos rest easily with the strong tendency of public choice theory to denigrate the validity of ‘the public interest’ as any sort of normative guide for official behavior (except in so far as the application of public choice theory is itself promoted as being in the public interest).

Legitimacy issues of this kind are not, of course, peculiar to New Zealand. As Savoie (1998: 401–6) has noted:

To career officials, the message from much of the political leadership in Anglo American democracies in the past fifteen years has been clear and hardly positive: a good part of the civil service has no intrinsic value since much of its work could be turned over to the private sector or to agency employees who are expected to behave as though they were in the private sector. . . The central message remains the same: the public service as traditionally constituted no longer measures up.

It may be that in New Zealand such rhetoric has produced a legitimacy paradox, a sort of vicious circle. Ideologically-driven criticism of the public sector’s alleged inadequacies has helped transform governmental agencies along private sector lines, in turn undermining the culture of public trusteeship that lay at the heart of the New Zealand public sector in the first place. It is noticeable, for instance, that the term ‘public servant’ is heard far less today, as if it were some sort of negative appellation that few want to own. None of this is to deny, however, that New Zealand’s state sector remains replete with highly competent and dedicated officials (albeit that most prefer to be known as executives, managers, or policy analysts).

4. Moving on: the need for a more open and eclectic approach

The state sector reforms in New Zealand were impelled in the mid-1980s by a narrow range of theoretical ideas, based largely on economic interpretations of organizational and political behavior—that is, public choice theory, agency theory and transactions costs analysis. The impact of NPM came somewhat later. Those promoting the principal reform ideas, a relatively small but cohesive group of politicians and officials, were highly effective in seizing a political opportunity for radical change. Their actions were bold, imaginative, innovative, and both vigorous and rigorous. The apparent coherence of their theories contrasted sharply with the rather less elegant, more piecemeal and pragmatically informed ideas upon which the state sector apparatus had been founded. They held out the promise of a fresh new beginning for a system of public administration that seemed to many to have become moribund, crippled by the inertia of bureaucratic hierarchy and control.

The reformers were also largely insensitive to the values of broader democratic consultation; and their ideas had hardly been tested by practical experience anywhere. It was almost as if an Anglo American tradition of academic scholarship in public administration and politics (not to mention organization theory) stretching well back into the 19th century had little if anything sensible to offer the modern day architects of the reformed public sector. New Zealand was seen by many as a sort of quasi-scientific laboratory for governmental reform, which is why so many people have come to this country to look at the new system for themselves.

5. Conclusions

In my view, a price has been paid for the overly narrow theoretical framework that was used to design the state sector reforms in New Zealand. Now, the way ahead must be informed both by a much more eclectic theoretical input, and also by a much closer dialogue between theory and practice. I have argued elsewhere (Gregory, 1999; Gregory and Hicks, 1999), that the state sector reforms in New Zealand, especially in their application to the public service, have been too ‘mechanistic’ in their orientation, and too blind to the important ‘organic’ dimensions of public organizations. They have focused too much on physical restructuring, attempting to reduce the complex, vital, and dynamic reality of governmental process to essentially artificial dualities, like ‘outputs’ and ‘outcomes’, ‘owner’ and ‘purchaser’, ‘funder’ and ‘provider’. They have tended to ignore the less quantifiable and more holistic elements that in New Zealand underpinned a strong culture of public service trusteeship. I find it difficult to persuade myself that this has all been for the good.

It is not now a matter of evaluating the reforms in some sort of rationally linear fashion, as if we could specify their objectives and then measure conclusively the degree to which they have succeeded or failed in achieving them. Instead, evaluation and change should now proceed through a continuous and inevitably ‘subjective’ discussion, among interested parties, and in a multitude of forums, formal and informal. Through such a process a much broader range of ideas, theories and concepts than those which drove the changes should be subjected to the continuing test of practitioners’ experiences, and be tempered also by the

perceptions of citizens on behalf of whom our public officials are required to act. But is it going to happen?

Notes

1. 'Glide Time' and 'Gliding On' were New Zealand-produced television comedy series portraying the workaday lives of a group of public servants. Sir Humphrey Appleby, of course, was a central character in the British television comedy series 'Yes [Prime] Minister'.
2. I also believe that much more needs to be done to develop independent policy evaluation. This is a subject worthy of a paper in its own right. Here I would make two points in passing: first, government agencies virtually everywhere are by their nature much more attuned to policy implementation than to evaluation; and secondly, even where, as in New Zealand, there has been a 'decoupling' of policy ministries from operational agencies, it is doubtful whether these ministries are capable of offering manifestly independent evaluation of policy outcomes.
3. The term 'Trobriand Cricket' is 'taken from the famous ethnographic film documenting the way the game of cricket has come to take on a different form and significance since it was introduced by Methodist missionaries into the Trobriand islands in the early years of the 20th century, and has even come to replace local wars' (Hood, 1998: 454).
4. In 1987 the average annual income earned by New Zealand salary and wage workers was about 25% of the average salary package paid to public service permanent heads. By 1997 it was 17% of this average.
5. The point is well made by de Montricher (1998: 119–20): 'Professional life in the public service entails dedication by public servants who work for salaries that are considered inferior to those in the private sector. There is no causal relationship between the quality of the work and wage levels. Such a status is consistent with the rhetoric of the public service as a "calling," where the public servant is a person who is totally committed to his or her professional duties in serving the public trust.'
6. Reported in *The Dominion*, 10 August 1999.
7. It has been estimated that when private sector rules are applied to the salary packages of New Zealand MPs, taking in all their allowances and entitlements, their total yearly remuneration increases by 142% on base salary, in the case of a backbench MP; by 127% for a cabinet minister; and by 106% in the case of the Prime Minister (*The Dominion*, 30 October 1999).
8. These important distinctions are well drawn by Campbell (2000). Jervis and Richards (1997:15) make a similar point, that in Britain there is needed 'a cadre of committed public managers who value the public service ethos, and invest or encourage investment in, appropriate new forms of development that will maintain the ability of this cadre to provide the "glue that binds" an increasingly fragmented and diverse public policy and management system.'

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