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STATE SECTOR REFORM AND RENEWAL IN NEW ZEALAND: LESSONS FOR GOVERNANCE (Part 1)

Új Zéland nyolcvanas évek közepén indított közszektorreformja világszerte számtalan elismerést és dicséretet kapott. Az „új közszektormenedzsment” ezen radikális, innovatív és átfogó példáját sok reformáló kormány vizsgálta és elemezte, mind fejlett, mind fejlődő országokban. Az „új zélandi modell”, vagy legalábbis annak bizonyos elemei az elmúlt húsz évben számtalan közszektorreformra voltak hatással.

New Zealand's public sector reforms since the mid-1980s, both at the central and local government levels, have attracted world-wide recognition, interest and commendation. Regarded as the most radical, comprehensive and innovative example of the 'new public management', the 'New Zealand model' - as it has been called - has been closely scrutinized by reformist governments in numerous developed and developing countries and has inspired many of the public management changes which have been occurring around the globe during the past two decades.

The New Zealand model has been of an evolving kind. Over the course of the past two decades, while some elements of the original scheme remain intact, others have changed - in some ways significantly. In fact, in important respects the New Zealand model in 2005 is qualitatively different from the original design that attracted so much international interest in the 1990s, with less reliance on governance by contract and more emphasis on what might be called 'joined-up governance'.

A distinction is made between two phases in the development of the New Zealand model. Phase one, which roughly approximates the period from 1984 to 1999, involved a series of major policy decisions relating to the formal institutional arrangements, the codification of many of those institutional changes via a number of key statutes, and the implementation of the first wave of reforms. Phase two, which approximates the period from 1999 to the present, is characterized as a period of consolidation, development and renewal. While this latter period has not witnessed any significant repudiation of the broad thrust of the reforms of the 1980s and 1990s, some of the assumptions underpinning the original reforms have been revisited with consequential changes for governance arrangements and institutional design. Moreover, phase two has been characterised by a renewed focus on the development and maintenance of state sector capability and, in particular, whole-of-government capability tailored to effective service delivery. The discourse of bureaucratic, provider and professional 'capture', so much in evidence during the first phase, has virtually ceased.

PHASE ONE: THE NEW ZEALAND MODEL: IDEOLOGY, RESTRUCTURING AND REFORM - 1984-1999

Since 1984 virtually every aspect of New Zealand's public sector has been redesigned and reshaped, if not fundamentally transformed (Boston, et al., 1996;

Review of the Centre, 2001; Scott, Bushnell and Sallee, 1990; Schick, 1996; Scott, 2001; Wistrich, 1992). The first phase of New Zealand's public sector reforms must not be seen in isolation. Rather, they were part of a coordinated and much broader strategy of economic, social and political reform, the central aims of which were to boost the country's rate of economic growth, redefine the role of the state and enhance the quality of the democratic process. With respect to economic policy, the fourth Labour government (1984-90) embarked upon a comprehensive and ambitious liberalization program covering virtually all aspects of economic policy (including financial market liberalization, labour market deregulation, and the removal of most forms of industry assistance) (Bollard, 1992; Kelsey, 1995).

With the election of the National government in late 1990, major changes were made in the broad field of social policy, including health care, housing and social security. In brief, those changes were designed to increase the degree of targeting of social assistance, lessen the reliance on in-kind assistance while giving more weight to cash transfers and vouchers, reduce the real value of most welfare benefits, and separate the state's roles of funder, purchaser and provider (Boston, Dalziel and St John, 1999; Kelsey, 1995). Various reforms of a constitutional nature have also been enacted over the past two decades. Amongst the most important are the Official Information Act (1982), greater political and legal recognition for the Treaty of Waitangi (1840), the passage of the Bill of Rights Act (1990), and the introduction, in 1996, of a form of proportional representation based on the German model (Boston, 1998). Each of these changes has had significant consequences for the management and operations of the public service.

Many international observers have expressed astonishment at the capacity of recent governments in New Zealand to undertake such sweeping reforms. The explanation, however, is relatively simple. New Zealand is a highly centralized, unitary state with a unicameral Parliament and no written constitution. Until the introduction of proportional representation in the mid-1990s it had experienced single-party majority governments for more than half a century. In these circumstances, there were few constitutional or political constraints upon governments which were committed to comprehensive reforms. Interestingly, too, bureaucratic resistance was relatively muted. This reflected the strong support for reform from key ministries like the Treasury, an acceptance within the public sector of the need for change, and the absence of coordinated or vigorous opposition from the major trade unions.

As in many other countries, from the outset New Zealand's reforms had multiple objectives. The most important have been to improve efficiency, effectiveness and accountability (both political and managerial). But other objectives have also been in evidence: reducing public expenditure; diminishing the role of the state; enhancing the quality of the goods and services produced (or funded) by public agencies; and making public services more accessible and culturally sensitive. The last of these goals has become both increasingly important and politically contested in recent years, partly because of New Zealand's growing ethnic diversity but also because of the spreading recognition that the country's indigenous people - the Maori - have distinctive rights and interests which need to be protected.

With few exceptions, New Zealand's initial reforms were consistent with the ideas, principles and doctrines of 'managerialism' or the 'new public management' (Hood, 1991). Equally, many of those reforms have close parallels in some other OECD countries (Boston, 1996; Davis, Sullivan and Yeatman, 1997). These include:

- a systematic program of corporatization, privatization and commercialization;
- a greater reliance on competitive tendering and contracting out;
- the devolution of human resource management to the chief executives of individual departments and agencies;
- a move from cash-based to accrual accounting;
- improved systems of budgetary control;
- a greater reliance on financial incentives; and
- major changes in institutional design, including the placement of many service-delivery functions in separate, non-departmental agencies.

In addition, the first iteration of the New Zealand model embraced a number of distinctive features that have not, as yet, been adopted to the same degree in other jurisdictions. Amongst these are the following:

1. There was an extensive use of 'contractualist' devices to govern the relationship between agents and principals within the public sector, as well as between public and private organizations. Initially these contractual devices took the form of purchase agreements between ministers and departments (specifying the outputs to be purchased by ministers from their departments), and an annual performance agreement between the ministers and chief executives, compliance with the terms of which was factored into the chief executive performance appraisal by the State Services Commissioner. In addition, from the outset of the reform period use has been made of annual purchase (or funding) agreements between those agencies purchasing and those providing various services (e.g. health care). More recently there have been attempts to rationalize these arrangements, with fewer contractual devices focused increasingly on outcomes as well as outputs. But in very many respects the mode of governance underpinned by the reforms and still central to the New Zealand model is governance by contract.
2. There was a much greater emphasis on strategic management under which ministers specified their strategic objectives over the medium term and used these to set departmental priorities. Significantly, the new strategic management regime was integrated with both the annual budget cycle and the performance management system for departmental chief executives, thereby ensuring a degree of policy coherence and bureaucratic responsiveness that would otherwise be lacking (Boston and Pallot, 1997). The need for a comprehensive system of strategic management was one of the key recommendations to come out of the Logan Report (1991). While improving the design and operation of a system aligning ministerial objectives and departmental activities, the specific form of the system has changed in time and between governments.
3. There was a strong emphasis on the minimization of provider (or bureaucratic) 'capture' via the vigorous pursuit of organizational specialization and the decoupling of potentially conflicting functions. This was manifested in the functional separation of commercial and non-commercial functions, the sepa-

ration of advisory, delivery and regulatory functions, and the related separation of the roles of funder, purchaser and provider but since the change of government in 1999, there has been a review of the logic of, and the institutional design implications attendant upon, the decoupling of policy and operational activities.

4. A new financial management system was instituted. This involved not merely accrual accounting but also an output-based (rather than input-based) system of appropriations, the application of capital charges to most public sector organizations and a distinction (for the purposes of resourcing, monitoring and accountability) between the Crown's 'ownership' and 'purchase' interests. Once again, the balance of opinion has tended to favour a relatively greater emphasis on the Crown's ownership interests, partly as a function of what has been perceived to be a diminution in government capability - particularly over the medium to long-term - as a result of a short-term focus on the 'purchase' interest.

By the mid-1990s, the foundations of the new-look public sector had been laid and the key reforming legislation enacted, mainly the State-Owned Enterprises Act 1986, the State Sector Act 1988, the Public Finance Act 1989, the Health and Disability Services Act 1993, and the Fiscal Responsibility Act 1994. In the period from the passage of the Fiscal Responsibility Act through to the change of government in November 1999 various additional changes were made. The programme of corporatisation and privatisation continued through the mid-to-late 1990s, albeit more slowly than during the late 1980s and early 1990s. By early 1999, well over 20 State Owned Enterprises (SOEs) and other substantial state assets had been sold, representing more than two-thirds of the state's commercial assets. Quite apart from this, phase one also saw reforms (or the announcement of reforms) in many other parts of the state sector, including the funding and regulation of tertiary education, the provision of accident compensation insurance, the purchasing of health services, the funding and management of the highway network, and the organization and delivery of employment services. Substantial departmental restructuring also continued, partly prompted by the ongoing quest to separate policy from operations and partly in response to particular political imperatives.

By the late 1990s the central government bureaucracy in New Zealand consisted of nearly 40 departments (including three central agencies), more than a dozen (mainly small) State-Owned Enterprises, three Offices of Parliament (the Office of the Ombudsman, the Parliamentary Commissioner for the Environment, and the Office of the Controller and Auditor-General), and around 2850 crown-owned entities (of which there were about 2650 school boards of trustees, 35 tertiary institutions, 22 Crown health enterprises, and nine Crown research institutes). In addition, there were at least five other organizations which, strictly speaking, cannot be classified in any of the above categories: the New Zealand Defense Force, the Police, the Office of the Clerk, the Parliamentary Counsel Office, and the Parliamentary Service. At the close of the millennium there were around 250,000 staff employed in central government and approximately 20,000 employed in local government (with another 15,000 working for organisations contracted to provide local services). Of those employed in central government, about 31,000 worked in the 'core'

public service (i.e. government departments), fewer than half the number in the mid-1980s. This huge reduction in staffing levels was due primarily to contracting-out, corporatization, privatization and natural attrition. There were also a large number of redundancies, with up to 4% of state sector employees being given severance payments in any one year (State Services Commission, 1998a, p.14).

These figures also underscore the fact that New Zealand, at the end of the 1990s was - and indeed largely remains - a highly centralized polity, unlike the situation for example, in Scandinavia. Virtually all major public services (including social welfare, education, health care and most public housing) are funded and provided at the central government level. Although the first phase of New Zealand's State sector reforms was paralleled by changes of an equally radical nature in local government (Bush, 1995), and proposals to devolve certain responsibilities to the sub-national level mooted from time to time, these were poorly supported. The prevailing view over this period was that local government had only limited competency and capacity, and that devolution would risk greater duplication and inefficiency.

PHASE ONE: AN ASSESSMENT

The first phase of New Zealand's public sector reforms generated a variety of evaluations. During the 1990s, for instance, two important independent studies of the reforms were commissioned by the government: the first under the leadership of Basil Logan in 1991 (Review of State Sector Reforms, 1991), and the second by the American public management expert, Professor Allen Schick in 1996 (Schick, 1996). In 1999 the New Zealand Treasury commissioned a brief review of over 40 separate reports and commentaries on the public management reforms (Petrie and Webber, 1999) and the State Services Commission (SSC) undertook a review of public service accountability based on interviews with a range of ministers, chief executives, parliamentarians, central agencies and independent commentators (State Services Commission, 1999). The Office of the Controller and Auditor-General also completed a number of valuable studies of particular aspects of the new model, including contract management and institutional governance (Controller and Auditor-General, 1996, 1999; Review of Centre 2001, 45).

Aside from this, there were various evaluations by academics (and other independent analysts) from a range of disciplinary perspectives (e.g. Boston, et al., 1996; Boston and Pallot, 1997; Gregory, 2000; Halligan, 1997; Kelsey, 1995; Norman, 1995, 2003; Pallot, 1998), with the corporatization and privatization programmes attracting perhaps the most detailed scrutiny (e.g. see Duncan and Bollard, 1992; Spicer, Emanuel and Powell, 1995; Taggart, 1990).

At the same time, it is important to emphasize that New Zealand's public management reforms have never been the subject of very detailed, comprehensive, multi-year assessments of the kind undertaken in a number of other countries, such as Australia, Canada and the United States. In the absence of truly thoroughgoing, rigorous and independent evaluations, prudence dictates the need for caution in offering judgements about their merits, certainly with respect to those mat-

ters where the evidence is very partial and incomplete (Boston, 2001). As one might expect, of course, the relative dearth of hard empirical data has not prevented widely differing views being advanced about the New Zealand model, both at home and abroad.

The evidence, on balance, provides sufficient grounds for believing that the new model of public management is superior to the one it replaced, and that New Zealand has enjoyed net gains from the enormous reforming efforts of the past 20 years. There is evidence, for instance, of greater productive efficiency (especially in the commercial parts of the public sector), improvements in the quality of certain services (e.g. the reduced time taken to process applications for passports and welfare benefits), better expenditure control, better management of departmental budgets, greater managerial accountability, and major improvements in the quality of information available to policy makers (Boston, et al., 1996; Duncan and Bollard, 1992; Spicer, Emanuel and Powell, 1995). Furthermore, the vast majority of senior officials and ministers interviewed on the subject during the 1990s believed that the new model of public management was better than the previous bureaucratic order. Indeed, in 1999 it would have been difficult to find any senior policy adviser or manager who would have advocated returning to the former relatively centralized, inflexible, input-driven, and rule-bound policy regime.

At the same time, the new model contained numerous flaws, deficiencies and inconsistencies, and the implementation of many of the changes much to be desired. Indeed, as the Schick Report and assessments by the SSC and others indicated, there were problems – either major or minor – with virtually every aspect of the new policy framework, including institutional design, human resource management, financial management, performance management, the accountability system, the incentive structure, funding levels, and so forth.

KEY ISSUES AND CONCERNS

All systems of public management encounter difficulties. In some cases these may be due to inherent design weaknesses. In others the problems may be externally generated – the product, for instance, of political instability or a severe economic crisis. In New Zealand's case the first phase of the reform program encountered both kinds of problems; that is to say, some were inflicted from within and others from external sources. On the external front, the fundamental difficulty was fiscal in nature. Since the 1970s New Zealand governments have been trying to curb public expenditure, including expenditure on the administration of the state and the funding of major social services such as education and health care. These fiscal pressures exerted a significant limitation on the capacity of various public agencies to provide outputs of the kind desired, both in terms of quantity and quality. As a result, there were serious difficulties in some areas, most notably the health sector. By the mid-to-late 1990s governments finally started to recognize the severity of the situation and the fact that the public service could not be expected to deliver an ever increasing volume of services under conditions of ever diminishing budgets (Upton, 1999).

Leaving aside the external political and economic context, the new model of public management was open to criticism both in terms of its basic design and its implementation in particular cases. They include the following:

Institutional Design:

- a) The separation of funders, purchasers and providers, and the related separation of policy advice from policy delivery, gave rise to a plethora of new organizations. This in turn intensified the problems of policy coordination and control, complicated the task of delivering services which required inter-agency cooperation, and exacerbated the problem of finding suitably qualified and experienced managers to fill all the senior positions. It also gave rise in several instances (e.g. health care) to very complex principal-agent relationships.
- b) Because the process in New Zealand was one of disaggregation (even Balkanisation) most government departments and ministries were reduced in size, and some lacked the necessary critical mass of analytical talent to make a significant contribution to the process of policy formulation and development.
- c) There was a lack of agreement over the criteria for allocating functions between departments and Crown entities, and such criteria as were applied were not employed on a consistent basis.
- d) The separation of policy advice from delivery did not always work well in practice.
- e) The attempt to introduce competitive arrangements for the provision of basic research and secondary health services generated numerous problems, and as a result the competitive model was largely abandoned.
- f) The provision of social services by commercially-oriented bodies did not prove to be very satisfactory.

Accountability and Governance:

- a) While the accountability framework for departments and ministries did improve, serious difficulties remained with respect to much of the Crown-entity sector, including a lack of clarity with respect to the proper roles and responsibilities of the key participants. This was highlighted by controversies over the management of the Fire Services Commission and the Tourism Board (Controller and Auditor-General, 1999).
- b) The process of selecting and training members of the boards of Crown entities was viewed as being seriously flawed.
- c) The distinction between outputs and outcomes and the Crown's purchase and ownership interests failed to significantly enhance the level of political accountability, or to make the boundaries between political and managerial accountability much clearer.
- d) The new accountability framework did not impose a statutory obligation on ministers to report on outcomes, and tended, moreover, to involve a system of

'accountability by specification' (Schick, 1996, 84) rather than via ex post reviews of effectiveness. While 'managerial accountability' may have been enhanced, 'managerial responsibility' was arguably devalued.

- e) The performance management system for departmental chief executives, while exacting and rigorous, proved to be rigid, time consuming and burdensome.

The Purchasing/Contracting Framework:

- a) The new management model assumed that ministers were fully independent and discerning 'purchasers'. Experience suggested that this was not necessarily the case, with some ministers taking little interest in the contents of purchase agreements.
- b) The emphasis on the government's 'purchase interest' tended to dominate its longer-term 'ownership interest' thereby putting at risk the long-run capability of the public sector.
- c) The reforms saw the growth of a plethora of often overlapping performance 'contracts' between ministers and their agents, including purchase agreements, chief executive performance agreements, statements of objectives, statements of corporate intent, statements of intent, annual statements, etc. The net effect was to increase transaction costs, and in some cases to generate confusion and conflict.
- d) Many service contracts were let without prior competitive tendering and in some cases contract management was woefully deficient.
- e) There were serious problems over the output pricing regime, especially in the absence of a genuine market and in an environment in which benchmarking was difficult.
- f) The move to purchase social services from voluntary organizations via legally-binding contracts, rather than untied grants, imposed significant additional costs and constraints upon those providers.

Constitutional Issues:

- a) Despite the decentralization of management responsibilities, New Zealand remains a highly centralized polity and under the first phase of the reforms very few responsibilities were devolved to the sub-national level.
- b) There was little evidence that the reforms had enhanced the application of the doctrine of ministerial responsibility.
- c) Some public agencies continued to be unaware of, or inadequately complied with their statutory obligations.
- d) While the reforms placed considerable emphasis upon improving responsiveness to consumers and clients, there was a more equivocal attitude to the role of citizens. In some cases, local democratic control was diminished with the abolition of semi-representative boards (as in hospital services).

Ethical Standards:

- a) Over the first phase of the reforms there were high-profile cases of fraud (or alleged fraud) involving senior officials, raising concerns about a possible decline in ethical standards within the public sector.
- b) There were also cases of extravagant and wasteful expenditure, both within the Crown-entity sector and the core Public Service.
- c) There were some cases of serious conflicts of interest (e.g. public agencies purchasing services from companies owned or managed by senior staff or board members of the agencies concerned).

Policy Capability:

- a) Over the period the quality of policy advice across the public sector was highly variable, with some departments having serious difficulties recruiting and retaining competent policy advisers.
- b) The range of advice on some issues appeared to be very narrow (and as such at variance with the accepted Westminster conventions relating to the proffering of policy advice).
- c) Many capable policy advisers and middle managers became consultants, thereby reducing the government's in-house policy capacity.
- d) The absence of good policy evaluation continued to act as a constraint on evidence-based policymaking.

Service Quality and Quantity:

- a) Monitoring work undertaken by the Ministry of Maori Development highlighted significant deficiencies in the way public agencies were fulfilling their obligations to Maori (in terms of the principles of the Treaty of Waitangi).
- b) There was serious public concerns about the quality of various public services, including health care and education. Some of the problems in the compulsory education sector were so severe that they led the Education Review Office to recommend the closure of a number of schools.
- c) There were cases of unnecessary loss of life due to poor standards of care or service on the part of public agencies. The most highly publicized cases included the Cave Creek tragedy in April 1995 (Gregory, 1998) and a series of preventable deaths at Canterbury Health Limited during the winter of 1996 (Stent, 1998).

Administrative Decentralization:

- a) Administrative decentralization did not free ministers from the 'tedium of administration' (Upton, 1999, 14).

- b) The devolution of responsibility for human resource management undoubtedly enhanced staffing flexibility and efficiency at the agency level, but it also hindered the implementation of service-wide initiatives in areas like training and succession planning.
- c) Administrative decentralization made it more difficult for the SSC to pursue policies requiring extensive inter-departmental cooperation and coordination, such as the development of an integrated approach to information technology and the building of a unified Senior Executive Service.

Organizational Restructuring:

- a) Constant organizational reshuffling became one of the hallmarks of the reformed public sector, with negative consequences for staff morale, labour productivity, policy development and coordination, and the delivery of services (highlighted in early 1999 by serious problems over the provision of student allowances and loans by the newly-established, and soon abolished, Department of Work and Income).

The foregoing list is by no means complete. It does not, for example, mention concerns in relation to the new strategic management framework or the problems of protecting the public interest where publicly-owned services had been privatized. Moreover, each topic could be greatly expanded as the following three cases illustrate.

1. THE DISJUNCTION BETWEEN THEORY AND PRACTICE

For some time the new approach to managing the public sector has been criticized on the grounds that some of the theories and assumptions upon which the reforms have been based simply did not fit the real world of democratic politics, or the conduct of public administration in a Westminster-type parliamentary system bound by the doctrines of collective responsibility and individual ministerial responsibility (Boston, et al., 1991). Particular concern has focused on the questionable behavioural assumptions underpinning public choice theory, agency theory and transaction costs analysis, notably the proposition that politicians and officials are fundamentally and unswervingly opportunistic, and only pursue the public interest when it is to their direct personal advantage. Commentators have also objected to the application of simplistic principal-agent models to complex constitutional relationships. Equally, they have questioned the wisdom of separating responsibilities at the ministerial level for the management of the Crown's ownership and purchase interests, and posed doubts about the capacity of ministers to perform the tasks required of them by the reforms (e.g. providing 'strategic' leadership, specifying their desired outcomes, 'negotiating' complex purchase and performance 'contracts', etc.)

For many years, criticisms of this nature were largely rejected or ignored by those guiding the reforms. But since the mid-1990s the balance of opinion has changed. Indeed, in recent years many of the criticisms advanced in the late 1980s and early

1990s had been endorsed by international experts, such as Allen Schick, and senior ministers. For instance, in 1999 – the end point of what is characterized as the first phase of the reforms – the Rt Hon Simon Upton, Minister of State Services in the (centre-right) National-led government of the time, challenged some of the pivotal assumptions underpinning the new model. His comments are worth quoting in detail:

The theory ... relies heavily upon Ministers playing their role as principals in a contractual regime comparable to a marketplace. We are expected to be energetic and well-informed purchasers, monitoring output delivery and bringing particular sanctions and pressures to bear as required. The reality is far from a market model. It is characterised more by monopoly supply, compliant demand, arbitrary prices and asymmetry of information. Some of the more obvious assumptions of the model that do not fit with reality include:

1. The view that alternative suppliers exist for the delivery of core government services. The simple reality is that Ministers do not stop purchasing from one department and actively look to purchase the same service from another.
2. The view that departments and Ministers religiously adjust quantity and quality dimensions in their purchase agreement in response to changing resource levels and changing third party demand.
3. The view that cash will not be disbursed to the department if output targets are not met and that purchase agreements are sufficiently specified to allow this anyway.
4. The assumption that there are still incentives for chief executives to generate and disclose productivity gains where these are simply returned to the Crown through the current surplus management regime.
5. The assumption that, at any point in time, departmental capability exists to deliver on priorities for the government of the day.
6. The gross assumption that departments can always continue to reprioritise within baselines without affecting organizational capability and the equally absurd assumption that productivity gains can be extracted centrally through across-the-board budget cuts ...

It is a bold leap of faith to assume that Ministers cheerfully fulfill all of the requirements of the current public management system. In the same way that the incentives regime facing chief executives is more assumption than practice, I suspect that the case for Ministers is generally the same (Upton, 1999, 12).

Upton went on to urge the public service to 'acknowledge the divergence between the theory and reality' and to 'address the systemic gaps that exist from a longer run ownership and capability perspective' (ibid.,13). As we argue below, it was this very kind of challenge that informed the second phase of New Zealand's public management reforms.

2. THE LIMITS TO INTERNAL CONTRACTING

As already noted, from its inception the New Zealand model of public management relied heavily upon contractualist devices to govern intra-organizational, inter-orga-

nizational and interpersonal relationships within the public sector. Underpinning the development and implementation of such devices has been the objective of clarifying principal-agent relationships, thereby (hopefully) reducing agency costs and transaction costs and enabling principals to hold their agents to account. In other words, the contractualist instruments sought to provide a mechanism for enhancing hierarchical control (both by ministers and senior managers), clarifying expectations and aligning the interests of the parties involved.

In New Zealand most of the contractualist devices took the form of classical contracts. That is to say, they were usually written, often comprehensive, and signed by the parties directly involved. But they were not necessarily 'agreed' or 'negotiated' in the normal sense of these words. Instead, agents were usually obliged to sign the relevant documents (e.g. performance agreements) unless they had very strong reasons for not doing so. Equally, many of the documents commonly described as 'contracts' were not legally enforceable. Moreover, even when legally binding there was in effect little practical scope for using the courts as a means of enforcement.

There can be little doubt that contractualism brought benefits of various kinds, particularly in terms of making it much clearer what agents were supposed to do and how their performance was to be assessed. But the experience of the first phase of the reform period also illuminates the weaknesses and limitations of contractualist approaches. Some of these were already well recognized in the literature such as high transaction costs, the problem of goal displacement, and the related development of a check-list mentality in which individuals only give attention to the matters specified in the contract and ignore their wider professional or ethical responsibilities (Schick, 1996; Davis, Sullivan and Yeatman, 1997). But there are other drawbacks that also deserve mention.

First, using contracts of various kinds to manage the relationships within and between public agencies does not resolve any of the fundamental tensions that occur in these contexts. It does not, for instance, reduce conflicts over resource allocation, or assist with priority-setting, or overcome differences of view over what tasks should be undertaken and by whom. Equally important, contracts are of dubious value in an environment characterised by limited and/or asymmetrical information, arbitrary prices, monopoly supply, and uncertain demand (State Services Commission, 1998a, 10). Such an environment is typical of that found in the public sector.

Second, the use of contracts does not necessarily enhance political and managerial accountability. Indeed, in New Zealand problems of accountability continued to plague various parts of the public sector, notwithstanding the widespread deployment of contracts. Thus, when the ill-fated viewing platform collapsed at Cave Creek, the fact that the Minister of Conservation had both a performance agreement and a purchase agreement with his departmental head was of no assistance in determining how responsibility for the tragedy ought to be shared between those directly implicated (Gregory, 1998). Similarly, the enormous investment in contracts in the health sector did not prevent service quality standards from being poorly defined; nor did it guarantee adequate external monitoring of service performance by the Crown's purchasing agents (Stent, 1998).

Some of the contractualist devices in New Zealand also tended to complicate, rather than simplify, accountability relationships. For instance, many Crown entities

in New Zealand were deliberately established at an arms-length relationship to the government, with ministers appointing boards to oversee the management of their respective organizations. But with the development of purchase agreements, however, ministers had the opportunity, to virtually 'micro-manage' many of these bodies. This, of course, ran the risk not merely of reducing their autonomy and independence, but also of making it more difficult to determine who was accountable when sub-standard performance was in evidence.

Third, as has been widely recognised in various fields of human endeavour, not everything of importance can (or indeed should) be written into a contract. Often the most critical aspects of a relationship cannot be specified in writing. For instance, establishing a productive working relationship between a minister and departmental head does not depend primarily on the details of an annual performance agreement. Rather, it relies upon the individuals concerned possessing a shared understanding of their respective roles and responsibilities and having a common view about how government's business ought to be transacted. Much rests, in other words, on generally agreed conventions, values and norms. Equally, ministers and their senior advisers cannot operate without a high degree of commitment, goodwill, integrity, trust and reciprocity (Scott, 1997, 23). Such ingredients are not amenable to inclusion in a contract. By the same token, formal contracting cannot work without them.

3. RESTRUCTURING THE MACHINERY OF GOVERNMENT

For many public servants, one of the worst aspects of the first phase of the reforms was the constant process of restructuring. In the period from the mid-1980s through to the end of the 1990s most departments, as well as a high proportion of non-departmental bodies, were substantially reorganized and re-engineered. In many cases such restructuring was undertaken not just once, but several times. In 1998 the SSC estimated that up to a quarter of all public servants were affected by the process of restructuring at any one time (SSC 1998a, 14).

Frequent organizational changes of this nature were costly, in both financial and non-financial terms. Many high-quality and dedicated staff either resigned from the public service or were repeatedly distracted by the demands of change management. The costs of compensating those made redundant were substantial. Many departments suffered a serious loss of institutional memory and policy capability. And numerous public servants were confronted with repeated, and often protracted, periods of uncertainty. The effects upon morale, commitment and productivity, while impossible to determine, were anything but trivial.

Thankfully, the debilitating consequences of constant bureaucratic reshuffling were, towards the end of the first phase of reforms, finally recognized by ministers and senior officials. For example, in 1998 the State Services Commissioner, Michael Wintringham, spoke about New Zealand having 'slipped' into a 'restructuring culture' - a culture in which there was an instinctive recourse to the restructuring option, regardless of the specific nature of the problem (SSC 1998, p.8). He also acknowledged that organizational change could be damaging and disruptive.

Accordingly, the Commissioner argued that structural solutions should only be adopted when there were clear structural issues that needed addressing. In the second phase of the reform process ministers heeded this advice.

(*A tanulmány második részét folyóiratunk következő számában közöljük.*)

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