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# We are All Customers Now: Understanding the Influence of Economic Theory on Public Administration

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### **Abstract**

Market-based administrative reform has led to a sustained argument among in the public administration field. Some applaud this development on the grounds that it makes public service cheaper and more customer-oriented. Others argue that the public sector is not just another service-producing system delivering "public value" but rather that it stands for legality, due process, legal security as well as being a service provider. The article compares the impact of market-based reform in *Rechtsstaat* administrative systems and the Anglo-American "public interest systems. It also compares traditional public administration with an NPM-model at different stages of the policy process. The article reviews the potential democratic downsides to market solutions in the public administration by highlighting the core elements of "publicness" and the extent to which private sector organizations can deliver "public value".

### **Economics, democracy, and public administration**

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This article makes three arguments concerning the implementation of market-based reform in the public sector in different national contexts.<sup>1</sup> First, by differentiating between different *Rechtsstaat* and “public interest” models of public administration, the article demonstrates the powerful challenges that administrative norms related to legality present to such reform. Partly for this reason, *Rechtsstaat* countries have introduced such reform in a more piece-meal and less conspicuous process, compared to countries like Britain, Australia or New Zealand.

Secondly, the paper argues that the application of economic theories more broadly on public administration creates conflict with the endogenous norms and values in the public bureaucracy. These norms relate to legality, transparency and equal treatment which are core *Rechtstaat* values. However, public interest systems, too, have institutional obstacles to a full-scale implementation of market-based reform in those areas of the public service where legal authority is exercised.

Third, the paper puts forward the argument that the “publicness” of the public administration is essential to the role of public institutions in the process of governing. Bringing in market actors into public service, particularly in areas that are sensitive to citizens’ personal integrity and where legal authority is exercised over the individual, challenges the “publicness” of the administration and may undermine popular trust in political institutions.

Inefficiency and irresponsible spending, coupled with red tape, insensitivity to individual needs and an obsession with process are perennial accusations against public bureaucracies in almost all countries of the world. The root problem has been

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<sup>1</sup> The title of the article alludes to John Hibbing and Elisabeth Theiss-Morse’s book *Stealth Democracy* (Hibbing and Theiss-Morse, 2002).

identified as the tax financed nature of the organization and the lack of competition; public bureaucracies have been seen as simply lacking incentives to modernize, to become more efficient, or to deliver good service. Against that backdrop, a large number of countries have implemented projects to inject corporate sector models of organizational management and client—or, as it were, customer—service in order to give tax payers more bang for the buck. Sometimes the main role models in that reform effort have been for-profit organizations while at other times there has been a notion of going back in time to rediscover what was lost during the course of reform (Aucoin, 1990; Light, 1997, 2006).

Efficiency and making public money last longer have been important concerns to western governments for a long time. The argument that taxes are too high has political currency almost regardless of tax levels, which means that no government is immune from attacks for over-taxing its population and careless spending of the taxpayers' money. Also in welfare-state countries where taxes are high but where public services and welfare systems are noticeable, policy makers and bureaucrats need to know where their resources are going and how they are spent. Thus, some concern with efficiency and good management has been present in government for a long period of time. This article is less concerned with those aspects of economic thinking in the public sector. The focus here is rather on the paradigmatic shift during the 1980s and 1990s towards bringing in economic theory into public sector decision making and management.

From time to time, there has been an interest among economists to address the problem of public sector inefficiencies, or, as economists like Milton Friedman and

James Buchanan would put it, “government failure” (Buchanan, 1975; Friedmann, 1962; for an overview, see Lane, 1993). Public choice theory—“the economics of non-market decision making” (Muller, 1979:1)—represents an attempt to bring economic theory into public-sector economics and decision making. This approach, which was later replicated with a focus on decision-making rules (Buchanan and Tullock, 1965), party strategies (Downs, 1957) and bureaucratic strategies within public organizations (Niskanen, 1971), offered a challenging and alternative way of looking at political institutions and political behavior. With regard to efficiency problems, public choice theory demonstrated the vast differences between market-based allocation of resources and the budgetary process found in public bureaucracies. Again, the analysis substantiated systemic economic inefficiency and arrogance towards clients, as manifested in red tape and the absence of any real choice.

Public choice theory made important inroads into the political sphere in the 1980s (see Madrick, 2009). The Reagan Administration in the United States and Mrs. Thatcher’s government in Britain, equally determined to reverse the development of an ever-growing public encroachment of the market and individual freedom, saw qualities in public choice theory as a model of reforming the public bureaucracy. By breaking up public monopolies, creating market-like models of customer choice, cutting taxes and deregulating markets, these governments embarked on a neo-liberal project aiming at curbing public-sector growth and “unleashing” private initiative.

Underlying and sustaining these developments was a fundamental, but rarely explicated, normative notion that public sector organizations, both in their internal structure and processes and in their exchanges with their external environments, were not

fundamentally different from for-profit organizations. From that perspective, it was easy to see why an import of management models from the corporate sector would solve the inefficiency problems in the public sector. Certainly, there was an acknowledgement that the public sector differed in one important sense in that it is tax financed—a significant source of its problems, according to its critics—but organizational management and customer relations could, and should, emulate those applied by private sector organizations.

The degree of public sector specificity is thus critical to an understanding of the influence and guidance that business management can offer to the public bureaucracy (Pierre, 2000). The greater the extent to which there are tasks, norms, values, procedures and societal roles that set public sector organizations apart from all other types of organizations, the smaller the extent to which those organizations can incorporate elements of the organizational design and modus operandi typical to organizations outside the public sector. Moreover, public administration is not merely a system of service production; it is also an essential element in democratic governance. Therefore, an assessment of the contribution of economic theory to public administration must also include the extent to which market-based reform interferes in the democratic role of the public administration, or, conversely, if such reform offers a contribution to the performance of that role.

This article will critically assess the contribution of economic theory to administrative reform with particular attention to its ramifications on public service production as well as the democratic and governance roles of the public bureaucracy. The article does not deliver a detailed, country-by-country assessment of the significance of

economic theory in shaping administrative reform. Rather, the purpose of the article is to uncover the systemic, institutional and cultural factors that seem to promote or obstruct market-based administrative reform, and also to look more closely at the specific contributions offered by such reform as well as what the main problems caused by it. There has been a great deal of debate on what might explain the noticeable differences among countries with regards to their implementation of market-based (NPM) reform. The article seeks to contribute to that debate by highlighting the consistencies and inconsistencies between the micro-foundations of the *Rechtsstaat* and “public interest” models of public administration.

The article is organized as follows. The next section looks at the trajectory of reform in different types of administrative systems and cultures with particular emphasis on NPM administrative reform. The article then reviews a couple of different ways in which economic theory has influenced administrative reform design, ranging from the presentation of concrete and specific reform concepts to redirecting the discourse of public administration towards public sector notions of organizational efficiency and management. Following that, we look at the process of public service delivery to see how market-based reform offer alternative solutions to the traditional model of citizen input, management, resource allocation, accountability, and feedback. A concluding discussion closes the article.

### **The Policy or Non-Policy of Administrative reform**

Over the past couple of decades, market-based reform in different shapes have been implemented across the western world, the Antipodes, many Asian countries and also, to a varying degree, in the developing world (see Halligan, 2001, 2003; Hood, 1991; Manning, 2001; Pollitt and Bouckaert, 2004; Turner, 2002). However, the degree to which market-based public management reform has been implemented in different national contexts and different types of administrative systems and traditions varies considerably (Pollitt and Bouckaert, 2004; Peters, 2001). The bulk of the article is focused on the degree to which the NPM model of administrative reform is compatible with different types of public administrative systems; the degree to which such reform has been manifested in explicit policies of reform in different types of administrative systems; and the influence of economic theory on public administration more broadly.

Different national (and regional) cultures present very different preconditions for reform in terms of the societal embeddedness of the public administration, the state-centeredness of society, and popular perceptions of collective vs. individual action. This cluster of variables constitutes part of the administrative tradition of a country and this tradition, in turn, holds a good part of the explanation to why some countries have adopted NPM more extensively and rapidly than others (Painter and Peters, 2009). Thus, in *Rechtsstaat* administrative systems where values like uniformity, legality, expertise, accountability, due process, equality, citizenship and legal security are paramount, the NPM model has encountered more difficulties in generating acceptance compared to countries with a “public interest” model of public administration. This model emphasizes service, performance, contractual rights, protection of individual rights but also accountability, managerialism and professionalism in the public service.

Most of the European and Scandinavian countries are examples of the *Rechtsstaat* administrative tradition (Dyson, 1980; Berki and Hayward, 1979). The state-centric nature of these countries does not mean, however, that there has been consensus on political issues related to the balance between the public and private spheres of society. On the contrary; while the propensity for collective action is stronger compared to, for instance, the United States, the countries have witnessed a high level of political conflict throughout postwar period concerning public and private ownership, state intervention in markets and other issues along the left-right dimension of politics. This conflict has shaped the political discourse in much of Europe for the past several decades, even in the so-called consensual democracies in Scandinavia (Elder et al., 1988).

The Anglo-American democracies and the Antipodes would fall into the “public interest” category of countries. In Britain, the United States and Canada, market-based reform was introduced and implemented as part of a larger neo-liberal project headed by Mrs. Thatcher, Ronald Reagan, and Brian Mulroney, respectively (Savoie, 1994; Suleiman, 2003). In Australia and New Zealand, there was as much bureaucrat-bashing as in those three countries but the ideological context was different. Interestingly, although Australia and New Zealand were the countries where NPM was implemented most extensively, administrative reform in the Antipodes has not been tied to neo-liberal ideological currents as much as it was in Britain and the U.S.

Meanwhile, and in a much less conspicuous and value-driven process, market-based models have, albeit with significant national variation, penetrated the state through the public administration in the *Rechtsstaat* countries. If the introduction of NPM in the public interest group of countries was prefaced with a neo-liberal all-out attack on

the state, market-based reform was introduced in the *Rechtsstaat* countries was characterized by the opposite pattern. In Norway, administrative reform was mainly path-dependent and NPM ideas were brought in ad hoc in an incremental fashion (Laegreid et al, 2008). Similarly in Sweden, administrative reform during the 1980s and early 1990s signaled a new direction towards modernization with only very limited market-based features (Munk Christiansen, 1998; Pierre, 1993). Later, NPM reform was introduced gradually and without policy reassessment.

In France, administrative reform was implemented “without doctrine”; market-based reform could not penetrate the corporatist orientation of the public service. Instead, the *corps* assumed (or maintained) control of reform. As a result, management reforms have been “only instrumental; they cannot change themselves the basic characteristics of the administrative system because they are disconnected from a global set of market-oriented values and because they do not fit within any kind of clear doctrine or new state philosophy” (Rouban, 2008:135). Thus, a full-scale adoption of NPM reform was not an option as the norms and values both in society and in the public administration would not have supported such a reform.

The inconsistency between the embedded values of public administration in the *Rechtsstaat* countries and the core values sustaining NPM holds a significant part of the explanation to the non-policy of reform in those countries. The best way to describe NPM reform in the *Rechtsstaat* countries is reform “by stealth”. Since the neo-liberal foundation of NPM is at odds with the state-centric and collectivist political culture of these societies, market-based reform has been introduced subtly, ad hoc, and at the administrative level instead of at the political level. If NPM reform in the “public

interest” group of countries was the result of a “deductive” process where an overall ideological turn preceded administrative reform, the reform pattern in the *Rechtsstaat* countries has been that of an “inductive process” where reform has been implemented within the pre-existing ideological and normative framework.

This observation offers some ideas about the strategies that were available to politicians in *Rechtsstaat* systems who wanted to bring in at least some elements of market-based reform into their public service. The chief reason why NPM, despite the cultural and ideological obstacles, was considered as a model of administrative reform was that several of its objectives were attractive also to politicians and senior civil servants in the *Rechtsstaat* countries. NPM promised to cut costs in the public service, enhance client, or customer, satisfaction, and liberate politicians from controlling public service production and delivery; ideas that were just as palatable to the political and administrative leadership in both *Rechtsstaat* as they were in “public interest” systems.

The preferred strategy in the west European context has been a step-by-step process wherein NPM-inspired reform concepts have been introduced without normative or ideological overtones. In France—again, “without doctrine” (Rouban, 2008)—the so-called LFOF (*loi organique sur les lois de finances*) plan was put in place 2005-2006, introducing program budgeting, performance indicators and giving autonomy to managers (Cole, 2008; Rouban, 2008). In Germany, “New Public Management” did not go down well with the Weberian ideals of administration, but “Neue Politische Steuerung” (in translation “new political steering”) was apparently more attractive and became widely adopted as a new model for politico-administrative relationships, not entirely unlike the NPM model (see Grande and Pratorius, 2003).

Similarly, in Norway and Sweden, management by objective was introduced during the 1990s and was later accompanied by output-based budgeting, performance measurement and the creation of customer choice and internal markets. Again, the process was conducted within the pre-existing system of rules and norms and without an overarching assessment of the normative foundation of the public administration (Blomqvist, 2004; Christensen and Laegreid, 1998; Gustafsson and Svensson, 1999; Premfors, 2002).

The list of this type of moderate market-based reform in *Rechtsstaat* administrative systems could be made longer, but the point we want to make should be clear. The promise of NPM to curb public service costs was too sweet to be rejected (particularly in several West European countries in the early 1990s where the financial situation was strained) and the idea of managerial autonomy too tempting to be disregarded. Instead of paving the way for NPM reform by an ideological reassessment, which would have had little support both among the electorate and the political elite, NPM reform was brought in “by stealth”, through the backdoor. It was implemented extensively among local and regional authorities. At the central government level, reform was not initiated at the political level but evolved within the public bureaucracy. Reform was imported from transnational organizations like the OECD and was disseminated by international “epistemic communities”. Administrative practices and modus operandi gradually turned in the NPM direction, efficiency was emphasized and contracting out, competitive tendering, management by contract and internal markets soon became everyday concepts in the public administration jargon, all contained within the *Rechtsstaat* tradition.

This subtle strategy of introducing market-based administrative reform has not been confined to the European *Rechtsstaat* countries. In the Southeast Asian countries, NPM was to some degree imposed by international institutions like IMF and, more importantly, by the World Bank during the 1990s with a substantive degree of domestic compliance (Turner, 2002). Similarly, in much of the developing world, NPM was brought in by donor organizations as a means of developing the public administration, with only limited consideration to the institutional preconditions of such reform (Manning, 2001; Schick, 1998). Market-based reform in the public sector, coupled with privatization and the deregulation of domestic markets were all part of the World Bank's "good governance" campaign which transmitted neo-liberal values across the developing world. Clearly, reform in these parts of the world has not been characterized by subtlety; developing countries have faced bigger problems in resisting NPM compared to developed countries because it was tied to larger development projects which were critical to the recipient countries.

Among the developed countries, this strategy could only work if NPM reform, and an economic approach to public administration more broadly, was "decoupled" from the normative framework of public administration. Given that core values in the public administration such as legality and equal treatment prevented a full-scale introduction of NPM, the practice of public administration and public service had to be separated from the norms sustaining the public administration. Such "decoupling" is not necessarily dysfunctional to the organization but rather a strategy to cope with a complex environment or competing or inconsistent demands (Brunsson, 1989).

In the context of public administration this issue takes a somewhat different spin because these norms define not only intra-organizational procedures and behavior but the relationship between the public administration and its clients as well. Thus, while the public administration internally can relax the relationship between its rhetoric and its practice, the clients of the organization have a more difficult time understanding the discrepancy between the promise and performance of the bureaucracy.<sup>2</sup> The outcome appears to have been that clients/customers now want both models of administration; they appreciate the right to choose among different service providers and the service that are better attuned to individual needs at the same time as they still subscribe to legality, equality and procedural fairness.

Thus, the absence of a distinct policy of administrative reform has not been conducive to the reform process. Such a policy would have served several important purposes. It would have created harmony between the normative norms and values that sustain the public administration, its *modus operandi*, and the external expectations on the public administration. Also, a coherent and thought-through policy of reform would have defined NPM and given it distinct boundaries, i.e. a policy would have defined what sectors of the public administration that were to be reformed in an NPM fashion and which sectors should be exempt from such reform. Furthermore, a distinct policy of reform would probably have resolved goal conflicts within the public administration—between efficiency and legal security, between customer-attuned service and equal treatment, and between procedural legitimacy and performance-based legitimacy—which

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<sup>2</sup> In Sweden, there are several instances reported where public servants are having problems balancing increasing demands on efficiency against the continuing emphasis on legal security. Also, the emphasis on service which is central to Swedish administrative law sometimes is at odds with objectives like equal treatment and procedural fairness (see Schierenbeck, 2003).

currently have to be resolved ad hoc as part of administrative practice. Also, a comprehensive policy of administrative reform would perhaps have invigorated public discourse on public administration and helped articulate the pros and cons of alternative models of public administration.

Perhaps the most significant consequence of the non-policy of reform has been that practice has shaped debate and discourse, not the other way around. This would perhaps not have been a problem had it not been for the fact that this reform has ramifications that are both internal and external to the public bureaucracy. While the intra-organizational problems of adapting to new objectives can be handled within the existing structures, changes in how the public bureaucracy organizes its exchanges with clients and other external actors are far more difficult to design and manage, as mentioned earlier.

This is where public debate on what kind of public bureaucracy a country should have would have helped foster a new kind of external exchanges and also help the public learn what to expect from its public administration. Instead, public debate and discourse on NPM reform has been typically ex post and reactive, particularly in the *Rechtsstaat* countries where reform was not as ideologically charged as in some of the “public interest” countries. The tenor of this ex post debate has been a weakening of traditional public administration such as loss of accountability, insufficient whistleblower protection and substandard public service quality. To some degree, this pattern is indicative of rapid change in a core societal function with little or no debate on the desirability and nature of those changes.

Thus, to sum up this section, the introduction of market-based administrative reform was a very different process in *Rechtsstaat* countries than it was in the “public interest” systems. In the former systems, with their emphasis on legality, equal treatment and group rights, NPM faced a cluster of obstacles to gain acceptance. Also, this group of countries shares a collectivistic political culture and the neo-liberal “turn” in many other countries during the 1980s and 1990s did not gain foothold in the *Rechtsstaat* countries. In the “public interest” countries, on the other hand, a powerful neo-liberal campaign preceded NPM and the political culture was more individualistic and market-embracing. For these reasons, reform emerged in many countries “by stealth”, with rather limited public exposure, limited debate, and within the framework of a traditional public administration discourse. The result has been an emerging dissonance between popular expectations on the public bureaucracy on the one hand and its *modus operandi* on the other.

### **Stealth Economy: Three Types of Economic Influence on the Public Bureaucracy**

Leaving aside the type of economic and financial control and evaluation that any organization with a sizeable budget engages in, it is interesting to note how the influence of economics and economic thinking, broadly speaking, on public administration has varied considerably over the past several decades. Moreover, it is important to distinguish between different types of processes through which economic theory, practice, and values have been injected into the public administration. Particularly in the *Rechtsstaat* systems,

there seems to be three different levels at which economic thinking has entered the field of public administration.

Perhaps the most concrete, action-oriented type of economic influence is where administrative reform uses for-profit organizations as models or benchmarks in order to identify sources of inefficiency in public-sector organizations. The general idea here is that some import of budgeting and assessment techniques developed in the private sector can help uncover the actual costs associated with government programs and their administration. Ideas and practices related to organizational management are imported into the public sector based on, or as part of, a critique launched by corporate leaders against public sector rigidities and inefficiencies (such as, for instance, the Grace Commission in the United States in the 1960s or the Lindbeck Commission<sup>3</sup> in Sweden in the early 1990s; see Peters, 2001). The typical argument here is that the public sector would have much to learn from private business management in terms of organizational efficiency, cost control and customer satisfaction. For the most part, this is a kind of influence which does not challenge the basic normative structure of the public administration but rather which tends to be conducted within that framework.

A second, perhaps more sophisticated type of economic influence on public administration has been the application of economic theory on public administration. As mentioned earlier, the 1980s witnessed a growing interest among economists in applying economic theory on public administration and public service provision. Public choice theory—to some degree a precursor to rational choice theory—was an important

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<sup>3</sup> The Lindbeck Commission was a Royal Commission appointed to investigate problems with weak economic growth in Sweden. Its report (SOU 993:16) identified a number of political and institutional obstacles to growth and argued that Constitutional reform was critical to enhance the economic performance in the country.

contribution to public administration research, in several ways, as we saw earlier. The model sought to clarify the linkage between payment and services. It also brought in the notion of choice and markets for public services. Public choice theorists came under attack for presenting an ideologically biased account of public administration and for missing the point of collective, tax-financed problem solving altogether (see, for instance, Self, 1993). This type of influence would also include cost-benefit analysis and other analytical models where economic theory is utilized to assign costs to different public service options, sometimes even where such costs are difficult to assign, e.g. in areas like social work and police work (for an overview, see Vining and Weimer, 2006).<sup>4</sup> The difference between this and the former type of influence is that in this type, different economic models are applied to specific processes within the public administration without challenging the basic premise or normative framework of the public bureaucracy.

The third type of influence by economic theory on public administration has targeted the discourse of public administration. From a market, neo-liberal perspective, the point of departure is that of free individuals and markets and any public encroachment on those liberties should be assessed with great caution. This perspective stands in stark contrast to the state-centric perspective where collective action is perceived as a strategy of governing society. Public administration is at the heart of this clash between individualism and collectivism since it is the public structure with which individuals interact most frequently and where much of individuals' daily life is regulated.

In order to bring in private sector management philosophies, customer choice, and market mechanisms into the public sector, reformers must remove the

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<sup>4</sup> There are significant problems involved in conducting cost-benefit analyses on client-intensive services, or sectors where pre-emptive work is essential such as police services.

normative obstacles to such reform by rephrasing the discourse of public administration, from one which emphasizes *Rechtsstaat* norms and values to one which emphasizes efficiency, service, and customer satisfaction. Put in a slightly different way, reform was predicated on a change in discourse so that the organizational, legal and procedural specificity of the public administration could be downplayed or removed altogether. Public service production and public management thus become “generic” organizational tasks and in that perspective emulating organizational design and managements in for-profit organizations, where efficiency is higher, became the obvious solution to the problems facing the public administration (see Peters, 2001).

The emergence of NPM drew precisely on such a change in discourse. Osborne and Gaebler’s (1992) model of administration argues that the public sector should only engage in those core governmental roles that the market could not fulfill. Also, the notion of replacing citizens with customers is a distinct change in discourse. To be sure, the very features that set public organizations apart from private-sector organizations (Christensen et al., 2007) were identified as the most obvious and significant obstacles to modernization and rationalization. The concept of “public management”—itself a manifestation of the market-based discourse on public administration—represents an import of private sector management into the public sector; as Rosenbloom (1988:16) notes, “those who define public administration in managerial terms tend to minimize the distinctions between public and private administration”. The tendency to “minimize the distinctions” between the public bureaucracy and for-profit organizations was not an accident; it was part of a new, market-based discourse on public administration based in, and articulating, a denial of public-sector specificity which, in

turn, set the stage for market-based administrative reform (cf. Maier, 1987). If managing public and private organizations is a “generic”, non-sector specific task, then there is no reason why the public sector should not have much to gain from emulating private sector management models.

In all these three different types of processes through which economic thinking has influenced public administration, there is an implicit focus on those public-sector organizations whose main role is to deliver public service. Organizational functions and modus operandi that distinctly set the public sector apart from the corporate world—the *differentia specifica* of the public sector—were largely ignored. Certainly, the fact that the public bureaucracy is tax-financed, hierarchically organized and rule-driven was duly noted but there was very little understanding of the historical explanation to those organizational features and the problems they posed for any comparison with the organizations of the corporate world.

Market-based reform has proven to be most difficult to implement in those areas of the public service where the requirements for legality and legal security are the strongest, i.e. where the public administration exercises law and authority over the individual. Even here, however, market solutions are now making their entry, for instance in public surveillance and street patrolling but also in administrative processes where integrity and legality are essential, like producing advice on child custody cases. These cases of market solution beg the question of how to define the core of “publicness” in public administration. The issue is bigger than simply an organizational or managerial one although reform designers sometimes tend to overlook, or ignore, the wider ramifications of their reform on the “publicness” of the public service, and why that

“publicness matters. It also speaks to fundamental democratic aspects of the public administration. As Guy Peters puts it, “as government loses control over functions considered to be public, it may lose the ability to effectively direct the society; it may lose the steering ability that constitutes the root of what we call government” (Peters, 2008:379). Thus, the “publicness” of the bureaucracy is essential to its contribution to democratic governance, both in terms of its capacity to steer and regulate society and in its exchanges with citizens. “Publicness” is shorthand for legality, transparency, accountability, political oversight, procedural fairness, equality and equal treatment. Remove any or all of those organizational qualities and citizens will start to ask questions about why they should comply with its rules or why it should be trusted in the first place.

### **Economizing the public administration**

Some political scientists, par excellence Peter Self (1977), have been dismissive of the contribution of economists in understanding, assisting, or explaining the policy process. However, there is not one but several different types of economic theory, as well as theories at different levels and related to different phases of the policy process, and it would be clearly misleading to suggest that there is nothing which this analytical perspective could offer to public administration or public policy research. Furthermore, economic models provide exchanges between state and society on all stages of the public administration process. These exchange mechanisms may assist traditional channels of input and accountability or they may, conversely, contradict or challenge those channels.

**Preference formation.** In traditional policy making and public administration, preference formation and articulation on policy and administrative matters is believed to be a complex process involving citizens, political parties and organized interests. There is a process of deliberation among individuals and group presenting different views on public matters through which preferences are aggregated into policy programs. Policy making and administration are compartmentalized functions of government in order to ensure that administration is conducted objectively and without partisan bias. Participation, deliberation and generating consent are among the values usually associated with this traditional model of policy and administration.

In a market-based model, preference formation takes place at the output side of the political system, where service production meets its customers. By choosing among competing service providers, the customer articulates a preference among different schools or hospitals or other services. The market model of preference formation thus offers the individual an opportunity to voice her/his preference without aggregation or interference from intervening actors and interests. Also, this is a quicker process compared to the traditional model of democracy and policy making where preference formation in a strict sense takes place only on election day. In the market model, preferences are formed and articulated every time a public service is utilized.

The downside to this arrangement is that it disaggregates the polity (Suleiman, 2003) and leaves public debate and participation (in other ways than choosing in quasi markets) rather pointless exercises. Also, while the model empowers the individual to choose, s/he will have very little influence over the definition of the alternatives of those choices. That said, it seems clear that the market model provides a

new and more direct channel to voice preferences, compared to the traditional model of public service delivery.

**Management.** Traditional management, or leadership, in the public bureaucracy is based on hierarchy, professionalism, autonomy and accountability. Managerial autonomy is clearly present, particularly in “public interest” administrative systems, but there is also political responsiveness and loyalty to the government of the day.

NPM-style management seeks to increase manager’s autonomy in relationship to elected officials whose chief roles are to define the long-term objectives of the organization. Managerial autonomy is necessary to provide space for the application of private sector-style management in terms of resource allocation, human resource management and customer relationships (Moore, 1995). The biggest difference between the traditional public organization and the NPM-reformed organization is the emphasis on middle- and lower-level autonomy to diversify and customize services. This means that the hierarchy that characterizes traditional organizational structures, with some exaggeration, is put on its head in the NPM version.

NPM deprives its political masters some degree of organizational control at the same time as it opens up for empowerment of its clients. The influence of economic ideas serves to make service production more efficient and customer-attuned. Thus, the outcome of assessment is entirely contingent of the selection of yardsticks; do we want a public administration which is an administrative instrument of politicians, or do we prefer an administration which is geared to cut costs and provides us with choice in terms of service providers?

**Resource allocation.** In traditional public administration, resource allocation is a political and administrative matter. Resources are thus ultimately allocated according to political preferences. The risks of inefficient resource allocation, due to insufficient information, political or parochial biases or organizational self-interests, are significant.

The NPM version of resource allocation departs from customer choice and feeds back into the budget process. Services, and service providers, in high demand receive more resources while under-performing service providers receive less. Best practices and leading examples are rewarded, enabling them to further increase the quality of their work. Thus, it is the consumers who, through their choice among competing providers, ultimately allocate public resources. By removing as many political and administrative hands, and heads, as possible from the resource allocation process, the risks of inefficient resource allocation are minimized.

Economic models remain unchallenged in conducting and analyzing resource allocation, a perennial problem in public administration and public service production. For all its professionalism, traditional models of public service delivery sometimes under-produce services in high demand at the same time as there are other services which are rarely demanded. The traditional model is also slow in responding to changes in public service demand; those changes will have to be recognized by the political and administrative elite, and deliberation and tedious decision-making process are required before a real change takes place on the ground. The market-based model is clearly better designed to respond to changes in the level and direction of popular demand.

**Feedback.** In the idealized and traditional mode of policy making and administration, outcomes are fed back into the system and helps shape future preferences. Such feedback is both systemic, i.e., political institutions monitor and evaluate policy outcomes and give recommendations and advice for future policy, and based on voters' perceptions of the effects of policies.

In the market-based model, by contrast, feedback does not influence future preference formation. Instead, by measuring performance and managing the public organization based on those measurements, the administrative system becomes more or less self-referential. Performance measurement and management is replete with conceptual and empirical problems (see Radin, 2006) which sometimes tend to conceal rather than reveal the sources of poor performance and give priority to what can be measured at the expense of those services that cannot be analyzed that way. In the theory of market-based reform, performance measurement is the key feedback mechanism, yet as Radin (2006) shows this is a far from perfect feedback instrument.

**Accountability.** The traditional model of administration has a complex system of accountability, including internal audits and investigations of malfeasance. Accountability runs from bureaucrats to politicians who, in turn, are accountable to the electorate. Unless administrative behavior has been ostensibly in violation of rules assigning blame and responsibility is complicated, not only in a political sense but also in a legal sense.

The NPM model of service production appears to promise much more immediate, distinct and unambiguous accountability. Under-performing service providers are punished by the NPM resource allocation system; politicians can “name and shame” agencies that do not deliver; and performance measurement provides clear, quantitative evidence of where the pay payers money went.

Or does it? Who is actually held to account in the NPM model; decision makers or service producers (Radin, 2006)? What is actually being measured; is it those elements of public service that are easy to measure, or can we say with some confidence that all services are appropriately measured? Are performance indicators sensitive to the quality of public service in terms of the legality of administrative decisions and administrative behavior more broadly, or is performance measurement only a system that works on quasi-market, large-scale public service production? These are critical questions since much of the NPM model output-based resource allocation and accountability ultimately hinges on the quality of the performance measurement.

In sum, market-based reform provides new channels for citizen/customer preference formation and accountability which in many ways is quicker and more targeted than the channels available to the citizen/voter in the traditional model of policy and administration. At the same time, it emphasizes individual values over group values and dissolves political constituencies and collectivities. NPM brought individual values into the *Rechtsstaat* administrative systems where they are still trying to find out how to accommodate those values alongside group values such as equal treatment and procedural fairness.

Furthermore, NPM reform poses a severe problem for the role of the public administration in democratic governance (Pollitt and Bouckaert, 2004; Suleiman, 2003). It replaces the “publicness” of administrative institutions with a generic feature, focused on efficient service production that pleases the customer. The side of the administration where sensitive, legal decisions related to individual clients are made—decisions concerning health care, child protection, incarceration, penalties—and where efficiency should not be a priority, increasingly often becomes subjected to the same organizational and managerial model that has proven successful in the service production sectors. Thus, while market-based reform offers some benefits in terms of citizen empowerment, the costs in the larger context of democratic governance are considerable. Again, the choice of yardstick holds a great deal of the answer to the questions about costs and benefits.

### **Concluding discussion**

The preceding analysis allows us to ask some broader questions about the relationship between markets and economic theory on the one hand, and public administration on the other. First of all, what are the democratic downsides to market solutions in the public administration, and to what extent can NPM reform open up channels of influence that empower the citizen/customer in new ways vis-à-vis the public bureaucracy? With only minor simplification, it appears if market-based reform in the public sector has been a strategy of purchasing organizational efficiency and customer satisfaction at the expense of those organizational features that sustain the “publicness” of the public sector and its role in democratic governance. That “publicness” defines the relationship between the

bureaucracy and the political echelons of government as well as its relationship to the citizens. “Publicness” is shorthand for public ethos, due process, legality, and procedural fairness. It cannot be removed from the public sector without severe loss of institutional support and legitimacy. It cannot be replaced by market-based models of decision making and it cannot be transferred to the market (\*Author\*, forthcoming).

NPM reformers recognized to some extent this state of affairs and therefore reform was first implemented where “publicness” is least present and where market alternatives were available. Introducing customer choice in the education or health-care sector or contracting out water and sewage systems maintenance does not significantly challenge the “publicness” of those services. That challenge appears when NPM concepts as market choice and organizational efficiency are introduced on the exercise of public authority and law where customer choice does not exist and efficiency potentially jeopardizes legal security.

Secondly, what are the core elements of "publicness" that cannot be privatized? To some extent this issue is addressed in different ways in “public interest” systems and in *Rechtsstaat* systems of administration. Even so, however, administrative reform in both types of systems has reached a point where the issue of what must remain public in order to uphold public ethos and other core administrative values has come to the forefront. Privatization of the exercise of law seems clearly to be inconsistent with maintaining some degree of “publicness”. Furthermore, and coming back to a remark of Guy Peters quoted earlier, the structures and functions of governing, broadly defined, are at the heart of “publicness”. These might be almost banal statements, but as the Blackwater incident in Iraq showed private firms fulfill traditional governmental and

military roles even on foreign soil; governments are increasingly reliant on private think tanks and consultancies for policy advice; local authorities use consultancies to assess clients' welfare needs; and government agencies use contracts to deliver services that even moderately conservative observers would identify as "public". Clearly, the line between what can and cannot be privatized is not carved in stone hence "publicness" is at stake.

This leads us over to the third and final question; to what extent can private sector organizations deliver "public value"? There is now a heated argument about what defines public value and how it is reproduced. Public value obviously has both material and immaterial connotations. While material public value—essentially public service—can be delivered by the market, the immaterial type of public value—public ethos, legality, equal treatment—cannot be provided by for-profit organizations. Various models of "retrofitting" or insisting that private contractors provide some training for their staff in public ethos are problematic because they change the incentive structure to private firms (\*Author\*, forthcoming).

Paradoxical as it might seem, it sometimes appears as if the simplest and most obvious solution to the problem has been lost out of sight; letting the public sector continue to deliver public value (Olsen, 2006). If a cost-benefit analysis were to be conducted on some elements of NPM reform bringing in market mechanisms into the public sector, it might well find that the overall costs outweigh the benefits. As this article has argued, economic reform in the public sector, implemented specifically where it offers improvements in public service and citizens' empowerment, offers a strong

contribution to the modernization of the state whereas when implemented in other public sector contexts it may cause more problems than it solves.

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