An Era of Change

Introduction

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

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

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

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

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

A new paradigm

There is **some debate over whether or not public management, particularly the new public management, is a new paradigm for public sector management.**
There are those in favour of regarding the reforms as a new paradigm (Osborne and Gaebler, 1992; Barzelay, 1992; Behn, 1998, 2001; Borins, 1999; Mathiasen, 1999; Holmes and Shand, 1995; OECD, 1998). There are others who argue against the notion of paradigm change in public sector management (Hood, 1995, 1996; Lynn, 1997, 1998, 2001, 2001a; Pollitt, 1990, 1993; Gruening, 2001; Pollitt and Bouckaert, 2000). It is argued here that, either using the ordinary meaning of the word or the more recent usage associated with the work of Kuhn (1970), the term ‘paradigm’ is appropriate both for the traditional model of administration and the public management reforms most commonly linked together as the new public management.

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

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

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

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

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

The emergence of a new approach

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

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

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

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

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

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

Administration and management

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

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

From these various definitions it is argued that administration essentially involves following instructions and service, while management involves: first, the achievement of results, and secondly, personal responsibility by the manager for results being achieved. The terms administration and management are not synonymous, neither is their application to the public sector. Public administration is an activity serving the public, and public servants carry out policies derived from others. It is concerned with procedures, with translating policies into action and with office management. Management does include administration (Mullins, 1996, pp. 398–400), but also involves organization to achieve objectives with maximum efficiency, as well as genuine responsibility for results. These two elements were not necessarily present in the traditional administrative system. Public administration focuses on process, on procedures and propriety, while public management involves much more. Instead of merely following instructions, a public manager focuses on achieving results and taking responsibility for doing so.
Similarly, the words ‘management’ and ‘manager’ have been increasingly used within the public sector. Closely related words may change by usage; one word is used more often, while the other loses favour. As part of this general process, ‘public administration’ has clearly lost favour as a description of the work carried out; the term ‘manager’ is more common, where once ‘administrator’ was used. As Pollitt notes: ‘formerly they were called “administrators”, “principal officers”, “finance officers” or “assistant directors”. Now they are “managers”, (1993, p. vii). This may simply be a ‘fad’ or ‘fashion’ (Spann, 1981), but it might also reflect a real change in expectations of the person occupying the position, pointing to differences between administration and management.

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

Public administration and public management

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

The term ‘public administration’ always referred to the study of the public sector, in addition to being an activity and a profession. It is unfortunate that there is a profusion of words to describe the study of the public sector. Public policy, public administration and public management are terms all referring essentially to the same thing, which is how the administrative parts of government are organized, process information and produce outputs in policies, laws or goods and services. It is notable, however, particularly within the study of the public sector in the US, how little contact public administration, public policy and public management academics have with each other. Although all these approaches are related, there are often quite distinct academic followers of each.
They have their own conferences and journals, though the basic subject matter is essentially the same. There are differing views on the primacy of these terms. Rosenbloom (1986) argues that 'public administration is the use of managerial, political, and legal theories and processes to fulfil legislative, executive and judicial governmental mandates for the provision of regulatory and service functions for the society as a whole or for some segments of it'. This is a comprehensive, overarching definition, putting within public administration every conceivable part of the public sector. In addition, Ott, Hyde and Shafritz (1991, p. ix) saw public management as a branch of the larger field of public administration or public affairs; the part which 'overviews the art and science of applied methodologies for public administrative program design and organizational restructuring, policy and management planning, resource allocations through budgeting systems, financial management, human resources management, and programme evaluation and audit'. Some earlier usage, particularly in the United States, viewed public management as a technical sub-field of public administration. This usage is now largely superseded by 'public management' or 'NPM', referring to the reform changes of the last decade of the twentieth century (see Bozeman, 1993).

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

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

Imperatives of change

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

The attack on the public sector

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

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

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

Economic theory

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

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

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

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

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

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

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

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

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

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

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

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

The application of principal/agent theory to the public sector leads to disturbing comparisons in accountability when compared to the private sector. It is difficult to determine who the principals are, or find out what they really want. The principals, the owners, of the public service are the entire public, but its interests are so diffuse that effective control of the agents – public managers – is unlikely to be effective. It is difficult for the agents to find out what each principal might want them to do in any instance. There is no influence from the profit motive, no market in shares and nothing comparable to bankruptcy. If principals have no adequate means of making sure agents carry out their wishes, agents are less likely to perform. Even if there is an agency problem in the private sector, it is likely to be worse in the public sector.
The agency problem in the public sector could be reduced. The theory gives some backing to those arguing for contracting-out as much of the public sector as possible. In this way, the agency relationships would become those of the private sector, which are assumed to work better. Contracts could be used for employees and for organizations, and those arrangements would have incentives, both positive and negative, although even if theoretically desirable, the notions of performance contracts and incentive pay have problems of their own. If public activities are contracted out, there are problems ensuring compliance. Performance pay can attract resentment from other staff.

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

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

Private sector change

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

A concern with national competitiveness leads fairly naturally to a need for reform of the public sector. The desire to seek out and retain international business has ‘led countries to try and reform their governments in order to create a better investment and business climate’ (Kamarck, 2000, p. 232). Economic adjustment in the private sectors of many countries has been a painful but necessary process.
Increased competition, both national and international, changes in management, changes in personnel have all occurred in private firms no less than in government. The private sector in most countries has faced enormous change in recent years, in an adjustment process that has generally been difficult. It would be defying the credibility of governments if they did not change the public sector as well.

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

**Technological change**

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

**Conclusion**

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

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

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

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

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

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