

Understanding Cultural Changes in an Economic Control Agency: The New Zealand Treasury

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ABSTRACT

A “bureau-shaping model is adapted to explain how the head of a control agency can shape its culture by agenda-setting, strategic recruitment and engaging staff in “expression games” through which their reputation depends on the impression they develop of competence and commitment to the core beliefs of the agency. The postwar shaping of a “culture of balanced evaluation” at the New Zealand Treasury (NZT) reflected the hegemony of a market failure paradigm. The NZT reinvented itself in the 1980s so that it would be aligned with a reformist advocacy coalition committed to impose and institutionalize a government failure paradigm. The accumulation of a number of threats to the NZT’s authority appear to be prompting another reinvention as its current secretary seeks to bring it more into line with the appreciative leadership style of its centre-left government.

The New Zealand Treasury (NZT) has been recognized by most commentators as being a key actor in the policy making processes that surrounded the implementation of the “New Zealand experiment” in structural reform and macroeconomic stabilization between 1984 and 1993 (Bollard and Mayes, 1993; Bollard, 1994; Kelsey, 1995; Massey, 1995; Easton, 1997; Wallis, 1997; Wallis and Dollery, 1999). This “experiment” attracted enormous international interest during (and for a few years after) this period. It was hailed by institutions such as the World Bank, *The Economist* and the OECD as a model for the rest of the world. Furthermore retired “technopols” such as Roger Douglas and Ruth Richardson (finance ministers in the successive Labour and National governments that implemented the reforms) found that, for a while, their advice was highly sought after by countries that were

facing the challenge of structural adjustment. This level of interest in the New Zealand case may seem somewhat surprising since many other countries were, during the same period, advancing similar processes of “liberalization” in which the state increasingly limits its role to core functions in which it has a comparative institutional advantage and strategically withdraws from other areas to facilitate the global integration of the national economy into the world economy and “stabilization” (the direction of monetary policy controlling inflation and fiscal policy ensuring that the present value of future government spending can be financed from the present value of tax revenues so that the risk of an unsustainable build-up in government debt can be avoided) to reflect their broad endorsement of the “Washington consensus” on an appropriate economic strategy (Rodrik, 1996).

Commentators cite a number of factors that combined to make the New Zealand case of special interest. Firstly, there was the sheer scope of the reform programme undertaken in this country. Secondly, the New Zealand experience offered a sharply defined experiment in liberalization and stabilization which was controlled in the sense that – unlike Eastern Europe – the basic capitalistic institutions for defining and reassigning property rights were already well-established. Thirdly, the coherence of the reform process was sustained through two terms of a Labour government between 1984 and 1990 and one term of a National government from 1990 to 1993, despite the reforms constituting a radical break from both the social democratic traditions of the Labour party and the conservative, interventionist traditions of their National rivals and a fluctuating commitment at Cabinet level to their advancement. Fourthly, in contrast to the “big bang” strategies being followed in countries such as Poland, these reformist governments modelled a “selectively radical” approach “in the sense of a limited number of reforms that are radical enough to make a real difference and combine the benefits of the ‘big bang’ and more gradual approaches while reducing associated risks” (OECD, 1995, p. 78). A series of “policy blitzkreigs” were launched in the areas of financial deregulation, tariff liberalization and removal of agricultural subsidies in 1984, tax and state-owned enterprise reform in 1986, the management of government departments in 1988 and of the public health sector in 1991, and targeting social welfare assistance and labour market deregulation in 1991. In each case, “the lightning strike involved a policy goal radically different from the existing configuration, to be attained in a short period, following a surprise announcement and a very rapid implementation” (Easton, 1994, p. 215). Fifthly, the framework for the advancement of liberalization and stabilization processes after the passage of reforming legislation was established by restructuring the

public sector according to the “New Zealand model” that embodies a “hard-edged” contractualism that was recognized as being both more far-reaching and intellectually rigorous than the more pragmatic approaches followed in other countries (Hood, 1991).

We would argue that these interesting features of the New Zealand experiment arise from the way it comes close to the ideal type of a paradigmatic policy change. It advanced reforms that sought both to limit the scope for government failure in the form of rent-seeking, agency capture, bureaucratic empire-building and populist interference in the settling of monetary and fiscal policy. The New Zealand model of public management, attempted to reduce government failure in residual areas of government activity. It may thus be viewed as a concerted attack on pervasive problems of government failure and a radical break from a policy paradigm that rationalized interventionist policies as piecemeal, incrementalist solutions to problems of market failure. The 1984–1993 reform episode in New Zealand thus marked a punctuated equilibrium in a pattern of policy development characterized by long periods of stability involving incremental adaptations to policy that alternate with brief periods of “qualitative, metamorphic change” or revolutionary upheaval (Gersick, 1991). The observed shift from a “market failure paradigm” (MFP) to a “government failure paradigm” (GFP) reflected a third order change in the hierarchy of policy goals and the overarching terms of policy discourse (Hall, 1993). This order of policy change can be distinguished from the second order changes in policy instruments and first order adjustments in the settings of these instruments that can occur during periods of paradigm stability.

The NZT was able to play a key role in this process since it has long been the dominant institution of policy advice in New Zealand (Boston, 1996). This dominant position appears to arise not only because its official function of being the controller of the government’s finances places it at the “centre of the administration” so that “its financial decisions and recommendations pervade every aspect of government activity” (Polaschek, 1958, p. 252). It also exists because the NZT is formally required to comment on all departmental submissions to the Cabinet which have economic implications.¹ Since virtually every proposal presented to the Cabinet has some economic implications, this rule has allowed the NZT to have the first word in many Cabinet-level debates. This, in turn, has meant that the onus of making a particularly strong case is placed on any minister or department that presents a proposal without NZT endorsement. Moreover, while the Cabinet receives advice from other sources on economic issues, only the NZT has a comprehensive reporting role and maintains an interest in policy matters across the whole spectrum of government activity. The NZT

thus differs from its counterparts in many other countries, including the United States and Australia, in that its advice is not routinely contested by equally powerful bureaucratic rivals.

This paper will examine how the NZT had to reinvent itself in the early 1980s so that it could contribute to the strong leadership required to advance this third order shift in policy paradigms. It will also consider how it is currently undergoing another reinvention process to maintain its influence in the face of the contemporary reaction to the social consequences of liberalization and stabilization and the strong leadership style used to advance them. This backlash would seem to lie behind the quest for a more flexible approach to policy development and a more “appreciative” leadership style in New Zealand and other countries. However, before consideration can be given to reinvention processes at the NZT, some general propositions must be advanced about the essential function of organizational leadership in a central control agency.

1. Organizational Leadership in a Control Agency

Over the last two decades in the NZT's official understanding of government organizations appears to have been shaped by public choice theoretic accounts of empire-building bureaucratic behaviour (see Niskanen, 1971; Migue and Berlinger, 1974). However, we would argue that Dunleavy's (1991) “bureau-shaping” model is more relevant to an analysis of the behaviour of senior officials within a control agency such as the NZT than these budget maximizing models. In recent decades such officials have generally seemed to be more motivated to contain spending across departments than to engage in empire-building budget expansion within departments. This may be because they are typically subject to at least part of the blame for budgetary “blowouts” and for the failure of governments to sustain prudent fiscal policies. Moreover, powerful control agencies such as the NZT have the capacity to shape bureau behaviour throughout the public sector. Dunleavy's model would explain why jobs in such an agency may be highly prized. It is likely that its staff will consist of individuals who have been highly motivated to seek such jobs and who also have a strong incentive to retain them by conforming to the prevailing organizational culture.

The culture-shaping role of the heads of control agencies. The central insight of the bureau-shaping model may be combined with the view that organizational leadership provides a solution to agency failure within government agencies (Wallis and Dollery, 1999; Casson, 1991) to derive the basic proposition advanced here: that the essential leadership task of the head of a control agency is to shape its culture to

achieve a target level of influence on the policy process. This proposition can be elaborated in two steps. First, the remainder of this section will consider how the head of a control agency like the NZT can develop and maintain a distinct culture among those staff members who engage in the agenda-setting, formulation and evaluation stages of the policy making cycle. Secondly, the remaining sections of this paper will, with specific reference to the NZT, explain why its secretaries have generally sought to preserve a distinctive culture over a relatively long period of paradigm hegemony but, in recent decades, have sought to reinvent its culture in anticipation of a shift in the locus of authority to advocates of a new paradigm.

To explain how the culture of a control agency can be shaped by its head, it is necessary to consider the typical activities its officials engage in when they interact with one another and with policy actors outside their organization during a policy cycle involving defining problems, formulating proposals and evaluating drawing lessons from policy implementation. According to Hecló (1974: 305f) these activities can often take the form of “puzzling”. “Politics finds its sources not only in power but also in uncertainty – men collectively wondering what to do . . . Governments not only ‘power’ . . . they also puzzle. Policy-making is a form of collective puzzlement on society’s behalf.”

There are two ways in which the head of a control agency can try to influence these activities so as to shape its culture. The first is through the very familiar process of “agenda-setting”. This official can set the agenda for agency staff by focussing their attention on those policy issues that are deemed to have the most importance and dividing them into teams charged with the task of formulating an agency position on these issues. If organizational “culture” is understood to be broadly equivalent to “organizational identity” then agenda-setting can be seen as a culture-shaping activity since it has the effect of conveying “identity” in the sense of establishing where the organization “stands on issues of importance” to it (Taylor, 1989).

Secondly, the head of the agency can attempt to transform interactions that bring actors together to puzzle through these issues in what Goffmann (1959) called *expression games*. These games emerge between senders who express themselves in particular ways, and receivers who take in and react to such expressions, forming an impression of the senders. The interpretation of political expression, in particular, is likely to involve “making inferences from the expressive act about the sender’s motives, values and commitments” (Loury, 1994, pp. 432–3).

Dunleavy’s bureau-shaping model suggests that the agency staff members who engage in such games can be conceived as seeking to maximize their reputation within the agency and with its head since

this will not only affect their income and career prospects but also their access to interesting and challenging work opportunities. They will therefore be concerned with the effect the impression they convey in such games has on their reputation. This incentive will be reinforced to the degree that the agency's promotion and recruitment policies signal to current and prospective staff that they will be rewarded for conveying the "correct" impression.

The Treasury expression game. To maintain and build this reputation, the impression they convey will relate to at least two of their traits. The first is their competence. They will be aware that receivers are evaluating the contribution they make to puzzling in order to assess their analytical capacity and their ability to relate it to the problems at hand. Secondly, they will be aware that other receivers and the agency head, in particular, will be seeking to form an impression of their trustworthiness. This will be assessed in terms of their commitment to, and identification with, the core belief (Sabatier, 1991) the agency has about how it can best serve the public interest.

To assess trustworthiness in these terms receivers may scrutinize the statements of senders for their political correctness. If they are aware of this, senders may attempt to pass a threshold of acceptance by using code words or phrases that signal their allegiance to the core beliefs of the agency. This also suggests that they may practice what Loury calls "self-censorship". This is because "members whose beliefs are sound but who nevertheless differ from some aspect of communal wisdom are compelled by a fear of ostracism to avoid the candid expression of their opinions" (1994, p. 430). However, if the expression games pass what Collins (1993) termed "thresholds of physical density", participants may be close enough to one another for a sufficient length of time to detect the fall of in "emotional energy" that such avoidance or "preference falsification" can unavoidably produce. The repeated failure by an official to engage in expression games with an intensity that is "empirically visible, both in behaviour (especially nonverbal expressions and postures) and in physiology" (Collins, 1993, p. 211) may eventually cause questions to be raised about both their competence and trustworthiness.

These aspects of their reputation will be of even greater concern to the individuals concerned if the agency is embedded in a relationship of trust with a broader elite "establishment" or policy community. Whatever impression of incompetence or untrustworthiness they may leave through their engagement in expression games as agency staff members may also affect the opportunities that their reputation within this broader social network can give them access to. These expression games may therefore assume the qualities of "repeatedness" that stra-

tegitic game theorists such as Kreps and Wilson (1982) hold to be necessary to maintain “commitment”. The head of a control agency such as the NZT may thus have the capacity to induce its staff to conform to a particularly strong and distinct culture since this agency has such strong and continuing links with New Zealand’s political and business leaders as a key member of New Zealand’s policy establishment.

II. Preserving the Culture of a Control Agency Under a Stable Policy Paradigm

The NZT was so much a pillar of the New Zealand policy establishment in the postwar period that the puzzle is not why successive secretaries sought to maintain and preserve its culture up to the early 1980s. It is more puzzling to consider why they sought to reinvent its culture at the end of this period. This was a risky transformation to undertake since the NZT occupied a dominant position as a result of the stable relationship of trust it was able to sustain with the “passing parade” of elected governments in spite of the varying styles of political leadership they sought to exercise.

A fiduciary relationship. The relationship NZT officials enjoyed with these politicians was essentially a fiduciary one. Martin (1991) has likened it to that which exists between a barrister and client. While information asymmetries may characterize this relationship, in the sense that policy advisors often have more experience and expertise than their political principals, they are typically constrained from engaging in any short term, opportunistic exploitation of these asymmetries by their need to retain the trust of these principals.

The trust which successive finance ministers placed in their senior advisors at the NZT during the postwar period was based on more than their presumed loyalty. It was primarily based on an expectation that these advisors could be relied upon to act in an appropriate way and that they would fulfil their professional obligations to provide free, frank and expert advice to whatever government holds office. Their behaviour was more likely to be governed by a “logic of appropriateness associated with obligatory action” than by a “logic of consequentiality associated with anticipatory choice” (March and Olsen, 1989, p. 23). The trust they placed in NZT officials was thus based on a confidence that they would act according to a shared understanding of what is appropriate.

This understanding can operate at a number of levels. At the deepest level, it is an understanding of the appropriate role of the state in a mixed economy and therefore of the appropriate direction for any new policy initiative. In the case of the NZT this understanding provided the framework within which it can come to an appreciation of what

functions it was appropriate for it to perform within the system of government and what role it was appropriate for it to play within the policy process. This understanding gave rise to the core beliefs that its officials could be socialised into holding and that its head sought to protect through the expression games described in the previous section. They can be conceived as coming from a shared paradigm; that is, the common epistemological vision and value consensus of a knowledge-based community (Kuhn, 1962).

The Market Failure Paradigm and the Treasurer's Reactive Control Role. Like similar institutions in many countries, the NZT appears to have operated within a market failure (MF) paradigm right up until the early 1980s. The intellectual authority for this paradigm derives from its roots in conventional welfare economics. It should be pointed out, though, that the policy advisors who choose to work within a particular paradigm often play a significant brokering role in distilling from it principles to guide the formulation of policy proposals and rules to guide their evaluation. This means that they typically screen out some of the subtleties, reservations and ambiguities that characterize the theories they draw upon. They do this to package their advice in a way that satisfies the taste for certainty of politicians who "being under pressure to act decisively and dramatically, will naturally be impatient with any manifestation of the philosophic doubts which plague economics and will risk making strong assumptions about the efficacy of the policy instruments which have been assigned to their control" (Peacock, 1979, p. 231). Accordingly, despite the acknowledgement in normative economics prior to the 1970s of some of the second best and government failure problems associated with incremental interventionism, the dominant economic policy paradigm which institutions like the NZT constructed from it, ensured that the focus of the policy process was firmly on problems of market failure.

The appropriate advisory role for a control agency such as the NZT within a policy process that was primarily focussed on the generation of solutions to problems of market failure came to be one of reactive control rather than of proactive leadership. Solutions to various problems of market failure would be generated outside the NZT by various other participants in the policy process while the appropriate role for this institution was to ensure that the consequences of implementing these proposals were adequately considered. It should be clear, then, how it would be considered appropriate that the Treasury should provide a report on all proposals with economic implications. By performing this function, the Treasury could provide an institutional check against the propensity of activist elected representatives, with a short time horizon, to generate solutions to problems without adequate con-

sideration of the costs of implementing them (Wolf, 1979). In fulfilling this obligation Treasury officials acquired the reputation of being the “abominable no-men” (Easton, 1997, p. 99). However, someone, somewhere in the system, needed to be able to say “no” and so it seemed entirely appropriate that as “watchdogs of the public purse”, the Treasury officials should undertake this responsibility.

A strong, distinct culture needed to be established among these officials so that they could act in a mutually consistent way in fulfilling their control and advisory functions. By preserving this culture, the successive secretaries of the NZT would reinforce and strengthen the trust placed in them, and the institution they represented, by other participants in the policy process.

A Culture of Balanced Evaluation. The culture these secretaries sought to preserve appears to have been broadly defined by Whitehall norms that oblige public servants to provide free and frank advice in the “public interest” through a balanced assessment of the values, obligations and interests affected by the situation. Martin (1991, pp. 382–3) provided the following summation of what the determination of the public interest according to this norm involves:

The public interest is a useful shorthand for a set of important process considerations. These can be reflected in a checklist of things to be taken into account in relation to any policy issue, viz: regard for the law; regard for the principles of natural justice; consideration of the long as well as the short term; acknowledgement of previous commitments; avoidance of both the substance and appearance of personal or agency interest.

Within the boundaries supplied by Whitehall norms, NZT officials still had to draw on what Easton (1997, p. 86) calls the “collective institutional memory” that is “physically embodied in its files and archives, in the learned studies which it commissions or encourages, and in the individual memories of the officials (which are in turn reinforced by maintaining informal contacts with retired officials, with think-tanks, and with people with expertise outside the ministry”. This collective memory would develop through an incrementalist process of precedent accretion. Even where situations arise for which no precedent has been established, there is nonetheless likely have been some history of discussion about the issues relevant to these situations which can be drawn on to develop new precedents.

Cost-benefit analysis. In addition to demonstrating their trustworthiness through their commitment to Whitehall norms and their respect for the collective memory of their agency, NZT officials also sought to demonstrate their competence through their mastery of analytical techniques. During the 1970s the rules they applied, whatever they

could, to screen policy proposals generated outside this institution were derived from the techniques of cost-benefit analysis (Easton, 1997). These rules not only specified a consistent methodology for calculating cost and benefit streams, but also required that a real discount rate of ten percent be applied in all cases. Cost-benefit analysis did seem to be consistent with the overarching Whitehall culture since it allowed a balanced assessment of costs and benefits but its range of application was limited by quantification difficulties that could vary from proposal to proposal. It did not preclude the more general features of balanced judgment-making described by Martin (1991).

By sustaining a culture that reflected a shared understanding of the appropriateness of its own control functions and supplied rules and norms to govern the behaviour of its officials, secretaries of the NZT could both develop a collective memory which they could draw on in exercising their judgments and establish a stable and trusted identity for the agency in the policy community. The advice given by its officials could be trusted by policymakers since it emerged from a framework of rules that provided an adequate assurance that they were not only competent in the application of reputable techniques such as cost benefit analysis, but also reliable in the provision of the information about costs, consequences and likely trade-offs between conflicting goals and values that is needed to make balanced policy decisions. Why then was it considered necessary to reinvent this culture and jeopardize this trusted organizational identity in the early 1980s?

III. The Re-Invention of the NZT During the Reform Episode

Hall (1993) has argued, with reference to the UK experience in the transition from a Keynesian to a Monetarist macroeconomic policy paradigm, that the authority of the reigning Keynesian policy paradigm was gradually eroded by the accumulation of “anomalies” (such as the emergence of stagflation in the 1970s) and the resort by policymakers to ad hoc experimentation (mainly with various types of anti-inflationary incomes policies) that stretched its coherence. A similar process could be observed in New Zealand over the same period. The most striking anomaly with the prevailing MF paradigm was that it neglected the potential for government failure created by piecemeal, incremental interventions to correct instances of market failure. The growth of government beyond its financial and regulatory capacity and the resulting problems of pervasive price distortions, inflation and fiscal stress could be attributed, at least in part, to this anomaly. Moreover, the coherence of the MF paradigm was clearly stretched in those cases

where new forms of state intervention are introduced to correct the problems and distortions associated with existing interventions.

According to Hall (1993) the breakdown and erosion of authority of a reigning paradigm is eventually likely to lead to a stage of “fragmentation” during which policy participants engage in an active search for alternatives. As Gersick (1991) has pointed out, emotional discomfort, uncertainty and puzzlement are likely to be experienced by many of these agents during this phase. Moreover, as Hall (1993: 80) has argued, the sense of puzzlement at the top is likely to be exacerbated by the incommensurability of the different paradigms that are pushed forward for consideration. He writes that:

Paradigms are by definition never fully commensurable in scientific or technical terms. Because each paradigm contains its own account of how the world facing policymakers operates and each account is different, it is often impossible for the advocates of different paradigms to agree on a common body of data against which a technique judgment in favor of one paradigm over another might be made.

Those policymakers who are genuinely puzzled may thus be predisposed, at these times, to look for leadership from radical reformers who advocate the reconstruction of public policy on the basis of a new paradigm provided that this paradigm is both coherent and authoritative.

The GF policy paradigm seemed to exhibit both these characteristics. Its coherence derived from the way it sought to limit and reduce government failure through a radical reform programme that advanced processes of liberalization, stabilization and public sector reform in the areas of micro- and macroeconomic policy. Its authority was buttressed by the strong advocacy of these processes by institutions such as the IMF, the World Bank and the OECD. The implicit threat that hung over most countries during the 1980s that reforms which advance these processes could be required as a condition for receiving aid from these institutions reinforced this authority. However, the policy leadership that was required to reshape economic policy according to this new paradigm needed to be derived from domestic sources. It could only be supplied collectively by an “advocacy coalition” (Sabatier, 1991) whose influence extended across all areas of economic policy and through all stages of the policy cycle associated with pushing through particular reforms. The collective task of this type of advocacy coalition could only be considered to be completed when a new dominant paradigm is institutionalized so that it is embodied in the rules and operating routines of the control agencies and forms the locus around which a new policy consensus can be forged.

Treasury Leadership in the U.K. and New Zealand. To understand why the NZT broke from its traditional non-aligned position to identify itself strongly with, and become a key player within, the advocacy coalition that sought to impose a new GF policy paradigm in New Zealand, it is necessary to consider the lessons it appears to have drawn from the experience of its UK counterpart.

Hall (1993, p. 285) argues that with the breakdown of a Keynesian policy paradigm in Britain in the mid-1970s the locus of authority over macroeconomic issues began to shift away from its Treasury which “hitherto . . . had enjoyed a virtual monopoly over such matters”. The shift from Keynesian to monetarism was led by a faction within the Conservative party whose cause was championed by a section of the British media. They were able to assume leadership of the Conservative party and when the Thatcher government took office in 1979, they were then able to institutionalize the monetarist paradigm. Margaret Thatcher herself appears to have played a key role in this regard

She packed the influential economic committees of the cabinet with its supporters, appointed an outside monetarist to be chief economic advisor at the Treasury, and in conjunction with a few advisors, virtually dictated the outlines of macroeconomic policy for several years. The locus of authority over policymaking in the period shifted dramatically towards the prime minister. Over time, an aggressive policy of promoting civil servants who were highly pliable or sympathetic to monetarist views implanted the new paradigm even more firmly. . . . It was not civil servants or policy experts engaged by the government, but politicians and the media, who played the pre-eminent role in this process of policy change. The vast majority of government economists were virtually as Keynesian in 1979 as they had been in 1970. The monetarist assault was led by influential journalists, such as William Rees-Mogg and Samuel Brittan, and key politicians like Margaret Thatcher and Sir Keith Joseph, who persuaded others of the advantages of their cause and virtually forced the Whitehall machine to alter its mode of macroeconomic policymaking. (Hall, 1993, p.287)

A group of senior officials in the NZT appear to have absorbed lessons from the British experience and sought, in early 1980s, to preempt a shift in the locus of authority away from their institution by playing a leading role in the formulation of a new GF paradigm. In an extensive series of interviews with those actors how played an influential role in making economic policy in New Zealand over the 1984–1993 period, Goldfinch (2000) found that four NZT officials – Graham Scott, Bryce Wilkinson, Robert Cameron and Roger Kerr – were nominated as being more influential around 1984 than Bernard Galvin who was Secretary at the time. These interviews suggest that the influence these officials had within the NZT appears to have derived from two main factors. In the first place, a late 1970s recruitment drive had

meant that Treasury staff had come to be dominated by young trained economists who were receptive to the New Classical, Public Choice and New Institutional economic ideas these four officials had been persuaded by during the course of their postgraduate training in the United States. Secondly, they were given a free rein to apply these ideas to the development of a comprehensive economic reform strategy within Economics II, a policy division of the NZT that was chaired by Roger Kerr. It appears that Secretary Galvin was prepared to allow these subordinates to assume the reins of policy leadership within the organization in much the same way that the Labour prime minister, David Lange, gave his finance minister, Roger Douglas, a free rein in driving the new economic policy direction through various veto points in Cabinet, caucus and Parliament. Easton (1997) has, with his characteristic sense of drama, described this as a “colonel’s coup” within the NZT. This new policy line was set out in a series of briefing papers to incoming governments after 1984 that provided the blueprint for the subsequent New Zealand experiment in comprehensive economic policy reform.

The Reinvention of the New Zealand Treasury. In directing the attention of the policy community toward problems of government failure, the senior officials who wrote these papers were effectively defining a new role for the NZT in the policy process. They essentially redefined its advisory role in a way that involved it exercising, to a greater degree than before, its agenda-setting capacity. It now became evident to observers, such as Boston (1989, p. 133), that the NZT’s power and influence had come to rest, above all, on its capacity to “set the broad philosophical or theoretical framework within this most policy options – certainly in the economic and social policy arenas – are formulated and determined”. By doing so the NZT was able to define the central questions for analysis, exclude certain issues from consideration, and reject policy solutions which did not conform to the accepted wisdom. Moreover, the NZT did not just set the agenda for reform – it also generated the bulk of the reform proposals. It appears to have reinvented itself as a credible and legitimate source of policy leadership. Easton (1997, p. 99) has put it as follows: “The role of Treasury changed. Suddenly the abominable no-men were saying yes. Instead of opposing proposals for change, they were advocating them”. The old Treasury might have been partly blamed for the economic crisis of the 1980s, but the new Treasury could not be so implicated since it was demonstrably contributing to the policy leadership required to design and launch a comprehensive reform programme to turn around the New Zealand economy.

As the NZT forged a new identity based on its new understanding of its appropriate role in the policy process, it largely dispensed with rules

that were designed to ensure that its advisory staff could be trusted to make a balanced consideration of the consequences of policy proposals. They were freed to devise bold and innovative reform proposals provided that these were directed toward the advancement of the parallel processes of liberalization, stabilization and refocusing government on its core business. The control function of NZT changed from one of evaluating the consequences of policy proposals to one of ensuring their consistency with the principles it had established and coherence with the reform processes it had set in motion. A circularity was thus established between the design and evaluation of reforms which protected them from subsequent referral since even the emergence of adverse consequences could not justify the reversal of a reform that could be shown to be coherent with the overall reform direction.

The NZT was empowered to perform this new control function by a 1985 overhaul of the machinery through which Cabinet received policy advice. This saw a Cabinet Policy Committee being established with the task of ensuring the clarity and coherence of all policy. Since this structure was serviced by the NZT, it could perform a “gatekeeper function” (Kelsey, 1995), ensuring that in most situations its own policy line would be ascendant. As Bolston (1992, p. 194) has observed “any policy analysts . . . who reject the prevailing Treasury orthodoxy are at a major disadvantage. For in order to have their views taken seriously they must first demonstrate the validity and coherence of their own analytical framework, and this is no mean feat, particularly if it has to be done in the face of determined Treasury opposition”.

Cultural transformation. A major transformation of the organizational culture at the NZT appears to have also occurred during the 1980s. Easton (1997) describes how much of its collective memory was lost as considerable staff turnover led to the replacement of experienced staff with younger policy analysts who were eager to apply the sophisticated economic techniques and theories they had learnt at university to the type of *a priori* policy formulation tasks they were called on to perform at the NZT. They were also eager to engage in the type of expression games described in the earlier section to demonstrate their commitment to advance the GF policy paradigm.

To elicit trust from one another in these games they needed us to exhibit at least three qualities which can be termed the three P’s – political correctness; persistence; and passion. Political correctness could be demonstrated as they developed a language of their own with its characteristic ‘code’ words or phrases. Boston also points out the way such advocates of the New Zealand experiment “changed the language of policy discourse” (p. 39). They repetitively used words such as efficiency, transparency, accountability, credibility and contestability

not just as short-hand terms for the principles according to which they seek to reshape the role of the state in the economy, but as codes to signal to one another their commitment to a common cause. Coherence seems to have become the code word *par excellence*. A policy participant who persistently stresses the need for coherence is someone who advocates a particular reform for the “right” reasons – not in order to counter and balance past excesses, but rather because the reform logically emerges from, and continues, a redirection of the policy process that is believed to be the correct one since it is founded on the right principles. It forms part of the language of political idealists or true believers rather than pragmatists who are concerned that the policy process may get driven too far in any one direction.

The participants in these expression games also needed to demonstrate persistence in striving to consolidate and extend the application of shared policy principles. Wallis and Dollery (1999) have pointed out that this persistence will depend on the reserves of *hope* that enable such policy advocates to keep striving toward the realization of their policy goals. This hope would seem to be based both on the beliefs they have about the worth and possibility of these goals and the passion or intensity with which they hold these beliefs. It adds value to, or augments, whatever private interest policy participants have in advocating a particularly reform direction and compensates them for the type of *ex ante* uncertainty analyzed by Rodrik (1996) that must surround any calculation as to whether or not they are backing the right horse in their advocacy.

Finally, NZT staff needed to demonstrate a passion to advance its policy quest to impose and institutionalize the GF paradigm. This passion can be conceived as the high and observable level of emotional energy that could be reinforced through investment in “interaction rituals” (Collins, 1993) that pass “thresholds of boundedness” since they involve participants who share the same core beliefs. Such expression games or interaction rituals provided new NZT staff with the opportunity to signal to their colleagues that they could be trusted as “one of us” (Young, 1989) not just through the political correctness of their speech or the persistence of their actions but through the passion they invested in activities that involved puzzling. The culture of passion that developed in the NZT therefore functioned as a selection mechanism with people who shared this passion being drawn to work for this institution.

The ideologically bounded expression games they played with one another spilled outside its organizational boundaries as the NZT established relationships of trust with key business and political leaders. The senior officials who supplied transformational leadership to the NZT

must have realized that its reinvention as a source of policy leadership, its framing of a agenda for policy reform, and its insistence that reform proceed according to the principles it had specified *ex ante* would be controversial: it would split the New Zealand policy community and disturb the stable equilibrium of political trust that allowed the old Treasury to perform its traditional functions within this community. The NZT clearly needed to operate within a network within which other members could endorse its new role and undertake the political or management tasks required to implement the forms it advocated.

The Reformist Advocacy Coalition. The key players in the advocacy coalition that formed around the NZT after 1984 were officials in other control agencies such as the Reserve Bank and the State Services Commission, the reformist factions in both Labour and National cabinets (with Roger Douglas, the Labour finance minister from 1984 to 1988, and Ruth Richardson, the National finance minister, from 1990 to 1993, being particularly prominent) and the New Zealand Business Roundtable (NZBR). After setting up an office in Wellington in 1986 under the direction of former NZT official, Roger Kerr, the NZBR, a self-selected lobby that includes in its membership (which is by invitation only) the chief executives of some of New Zealand's largest companies, performed an important residual advocacy function within this network. Easton (1977, p. 116) has observed:

The Roundtable (did not) lead the. . . . Their public commitment occurred well after the strategy was under way, although without their involvement it probably would not have gone as far. . . . If Treasury had its public advocacy blocked, the Roundtable would often take the case up. Instances included the competition policy reform, student fees, social welfare, health and labour market reform. When many of the Treasury's policy initiatives were stalled in the late 1980s, following the resignation of Roger Douglas, it was the Roundtable which took over. This was most evident in its leadership of the policy development which resulted in the Employment Contracts Act.

The NZBR also functioned as a ginger group breaking new ground in applying the principles laid down by Treasury.

The strong alignment and identification of the NZT with this advocacy coalition meant that opportunities for this control agency to exert the greatest possible leverage over the policy process typically only arose when it enjoyed a mutually empowering relationship of trust with the finance minister and its politician could depend on the support in cabinet of the prime minister. This situation of maximum opportunity appears to have prevailed in New Zealand during the first four years of David Lange's Labour administration that held office between 1984 and 1990, and during the first two years of Jim Bolger's National Party Government.² During both periods the premiers were prepared to give

free rein over economic policy to finance ministers who shared the same commitment as their NZT advisors to advance the New Zealand experiment. By so doing they could claim credit for the provision by their government of coherent, decisive leadership at a time of economic crisis (see Bollard, 1994).

A number of commentators have highlighted the way reform proposals formulated by the NZT crashed through the policy process (Goldfinch, 2000) during the periods when Douglas and Richardson dominated Cabinet debate over economic policy direction. The strong alignment and identification of the NZT with the reformist advocacy coalition did, however, expose it to a number of threats to its authority.

Threats to the authority of the new aligned NZT. Firstly, it was inevitable that under both Labour and National governments the Cabinet would eventually have to respond to pragmatic concerns that reform was proceeding too far and too fast in one direction. David Lange seems to have become increasingly concerned with the inequitable distributional impact of the reforms and in 1988 blocked Douglas's proposals for a flat rate of income tax and an acceleration of the privatization program. Lange claimed that it was time for "a cup of tea", to take a break from the frantic pace of reform. When it became clear to Douglas that he did not command sufficient support in the Labour Party to depose Lange, he resigned and the pace of reform slowed with the Labour government making little attempt to extend its reforms into the growing area of social services. According to Kelsey (1995) the influence of NZT technocrats over policy direction "waned somewhat in the later 1980s, in line with that of Labour's technopols" (p. 50).

Although it revived again in 1990 when the National Party swept to power and sought to advance the reform process by reducing entitlements to state provision of social services (education, health care and social welfare) and reducing the fiscal deficit, the dramatic reduction in National's majority in the 1993 election despite the good economic news associated with a strong non-inflationary economic recovery, prompted the pragmatic Jim Bolger to demote NZT's most powerful ally in Cabinet, Ruth Richardson, from her key position as Finance Minister. From 1993 to 1999, the NZT had to work with a Finance Minister, Bill Birch, who was more interested in consolidating than advancing the New Zealand experiment in neo-liberal reform. Birch did, however, draw on NZT advice as he sought to define a centre-right position, in the context of a National-Labour consensus against reversing the reforms, by advocating that the budget surpluses that emerged after 1994 be directed toward a phased program of tax cuts once government debt had been reduced to levels in relation to GDP.³

A second threat to NZT authority arose from the strong public reac-

tion to the perception that a technocratic elite was pushing its reform proposals, virtually without modification, through a comparatively small number of veto points at cabinet, caucus and parliamentary level. This was reflected in a resounding referendum vote to change to a mixed member proportional representation (MMP) system in 1993 despite the fact that the change was not supported by either major party and the reformist advocacy coalition in the guise of the Campaign for Better Government launched an intense and comparatively expensive media campaign to persuade voters to retain the status quo. This referendum vote ensured that after 1996 there would be mainly coalition or minority governments that would have to negotiate policy proposals through Cabinet and Parliament in a way making it much more likely that they would be modified.

A third threat arose from the growing concern in government departments outside the control agencies with the negative impact of radical restructuring and reform on social cohesion in New Zealand. They were strongly influenced by the work of Robert Putnam (1993), who established a link between social capital and social cohesion, on the one hand, and economic performance and governmental effectiveness, on the other. To some extent they took their cue from former Prime Minister, Jim Bolger, who asserted the need to “bring back the balance” and predicted that future policy development would place even greater emphasis on the role of communities in “building the social capital of the nation” (Blakely and Suggate, 1997, p. 83).

Finally, the New Zealand Labour Party (NZLP), which remained in opposition over the 1990–9 period, appears to have been strongly influenced by the popularity of the more “appreciative” leadership style followed by the Clinton government in the US and the Blair government in the UK. This could be seen as a reaction to the strong style of policy leadership that Little (1988) argues was “all the rage” during the 1980s. A climate of anxiety appears to have developed under governments seeking to exercise strong leadership. This was generated by the belief that these governments would both allow producers and workers to be exposed to the harsh realities of a dynamic and volatile global environment without providing adequate assistance to adjust to its exigencies while seeking to exclude, marginalize and overcome any resistance to their reform initiatives. This climate ensured considerable receptiveness to the more “appreciative” leadership style the centre-left governments sought to exercise by building on and extending the historic achievements of their “strong” predecessors while, at the same time, focusing on the facilitative functions of the state likely to assume particular importance as major reform processes move into their consolidation phase.

Centre-left governments such as those of Clinton and Blair have thus claimed to have been influenced by “New Keynesian” economists who have sought to develop an approach to macroeconomic policymaking through which monetary policy could reduce instability in GDP and unemployment without destroying the credibility of inflation targets, and fiscal policy could allow a more flexible use of budget surpluses. These governments have also sought to differentiate themselves from their predecessors in terms of their supply-side agenda. In this regard, British Prime Minister, Tony Blair, and German Chancellor, Gerhard Schroeder asserted in a joint statement that “changes in interest rates and tax policy will not lead to increased investment and employment unless the supply side of the economy is adaptable enough to respond” and that “the most important task of modernization is to invest in human capital: to make the individual and businesses fit for the knowledge-based economy of the future” (Blair and Schroeder, 1999).

The election of a Labour-led coalition in New England in 1999 appeared to pose a significant threat to the NZT’s authority. The new finance minister, Michael Cullen, gave the initial impression of being the more unsympathetic minister the NZT has had since Muldoon. According to Laugesen and Maling (2001):

He scorned his department by refusing to have a Treasury official stationed in his office, an unheard of departure from tradition. Early meetings between Cullen and Treasury were punctuated by eye-rolling and sighing from the minister.

Meanwhile, the potential for a significant shift in the locus of authority has been brewing within the Department of Social Policy. James (2001) reports that the minister of this department, Steven Maharey, is currently seeking to transform it into a superministry, “the social equivalent of the Treasury”, “testing all policy against social criteria the way the Treasury does against fiscal and economic criteria”. According to James, the formation of strategic social policy group within this department in 2001 constituted the first step in the development of a “policy analysis and ideas factory” that would bring together analysts who current work in separate departments formulating health, education, housing, justice, social security and social services policy so that a framework can be established within which all these agencies would eventually work.

Is the NZT Re-Inventing Itself Again? There are some indications that another “re-invention” occurring in the face of the cumulative threats to the NZT’s authority. The current secretary, Alan Bollard, is an academic outsider who has set himself the goal of transforming the NZT’s culture during his five-year term, which commenced in 1998. Laugesen

and Maling (2001) quote him as stating: “Culture is something that is quite big in Treasury. If you’re trying to change Treasury you’re trying to change the culture as well. And I am trying to change Treasury and change culture”.

He has tried to do this in a number of ways. According to Laugesen and Maling “he is consciously hiring older staff, saying that younger staff don’t stay as long and sometimes don’t have the personal skills that are needed”. He is placing his staff under pressure to improve their relationship skills. “It does mean reinforcing what other departments are doing, helping them take the lead. It means working with them a lot more”.

He is also trying to encourage NZT staff to think more broadly and is deliberately hiring outsiders from New Zealand universities to bring new ideas into Treasury. Perhaps most significantly he has tried to align the agenda of his officials with that of the new government. The NZT’s briefing paper to the incoming government in 1999 made considerable reference to the need to enhance social cohesion by building social capital. Moreover, while its just released position paper “Towards an Inclusive Economy” offers a neo-liberal perspective on the government’s regional development strategy, advocating relocation assistance to assist job-seekers in moving out of deprived regions, it also acknowledges a “need to deal with the immediate concern for the social protection of today’s vulnerable people”. It remains to be seen whether Bolard will succeed in transforming the culture of the NZT to preserve its pre-eminent position in the New Zealand policy process.

IV. Conclusion

How relevant is the NZT experience of cultural change to an analysis of the behaviour of control agencies in other countries? It could be argued that the dominant position the NZT enjoys in the New Zealand policy process tends to make it something of a special case. There might not have been such a strong reaction to the alignment the NZT with a particular advocacy coalition following its cultural re-invention in the 1980s if institutional balances to its influence had made this alignment less threatening to other policy actors. Although the Australian Treasury (AT) went through similar cultural changes to the NZT in the 1980s in response to the shift from a MF to a GF policy paradigm, it has not come under the same pressure to reinvent itself in the 1990s. This may, at least in part, be because the AT shares an equal footing at the centre of federal government with two other powerful agencies – the Department of Finance that was created in 1976 “partly to counter Treasury’s power and provide different views on economic policy” and

the Department of Prime Minister and Cabinet (DPMC) whose “power can vary with the prime minister” (Goldfinch, 2000, pp. 126–8).

There do, however, appear to be some general lessons that can be drawn from a case study of the NZT. Firstly, no control agency can allow itself to jeopardize the relationship of trust it enjoys with its political principals. It will only move out of step in anticipation of the political sea-change produced by the shift to a new policy paradigm. Secondly, regardless of the direction its head seeks to steer its culture, the means used for doing so remain basically the same: agenda-setting, strategic hiring and engagement in expression games designed to link the reputation of officials with their ability to convey the “correct” impression to policy actors both within and outside their organization.

NOTES

1. New Zealand operates under a Westminster-style parliamentary system of government in terms of which the Cabinet of the elected government has final authority and collective responsibility over policy making.
2. The emergence of a minority National government under Jenny Shipley in 1998 after New Zealand First broke from the Coalition Government formed after the first mixed member proportional representation (MMP) election in 1996 provided more favourable conditions for a “mini-wave” of neo-liberal reform proposals although few actually passed into legislation in the new parliamentary environment.
3. The Fiscal Responsibility Act of 1994 committed future governments to make “transparent” though public announcements the medium term fiscal policy goals they deemed prudent.

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