

Policy Delivery Systems II: How do institutions matter?

by
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Introduction

A new literature in agricultural economics has appeared in recent years concerning policy delivery systems (PDSs) as opposed to policy formation and political economy (Sandiford and Rossmiller 1996). The new literature uses the structure/conduct/performance paradigm to examine case study material from the point of view of effectiveness, efficiency, enforceability and equity. The aim is to identify whether policy programmes have been effective and to use the approach to particularly identify whether problems are caused by the structures set up or assumed to be in place or whether problems have emerged from the way the programmes have been implemented (the conduct paradigm).

In an earlier paper, the author has reviewed the new literature of the PDS and its success or not in explaining some 17 case studies of different policy programmes put forward by the respective authors (Johnson 1998). In some but not all of the case studies the structure paradigm provided an important explanation of the subsequent performance of the programmes enacted by the respective legislatures or governments concerned. This suggests that a particular policy structure and conduct can in many cases be traced to the institutional arrangements that were in existence in a particular country at the particular time.

By institutional arrangements is meant the political institutions that operate in a country including the structure of the parliamentary system, the role of the bureaucracy, the role of political parties, and any conventions concerning operational rules within the government system. It also includes arrangements for the conduct of commerce including attitudes to property rights, the rule of law, and rules for the resolution of conflicts, as these also enter into the formation and delivery of economic policy.

The economic literature on PDSs includes writings on public choice, transaction cost economics and the new institutional economics. But much of the evidence comes from the public management literature and political science. The aim of this paper is to draw from these literatures to explain problems in the delivery of agricultural economic policy in different countries and to suggest lessons for the future. The paper is not a treatise on political science! Rather it attempts to catalogue operational experience in a convenient and summary form that would be of guidance to policy specialists in international organisations and in governments who haven't done the reading for themselves.

The paper first discusses policy institutions in representative systems of government, and then variants of the system found in different countries. It then discusses political economy approaches to government decision making and focuses attention on delivery or implementation aspects of policy programmes. The paper then develops a

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transactions cost approach to policy delivery systems to identify the key institutional parameters at work. Two case studies are examined from this point of view. The paper concludes with an assessment of the approach and its implications for the future.

Government Institutions

Policy institutions refer to the particular machinery of government which controls the authority and the resources needed to sustain policy programmes (Considine 1996, p.72). They include the legislature, the system of elections, the means of raising revenue, administrative bodies and so on. Most of this paper is about how these institutions work, how they interact with each other, and, above all, how they affect the formation and delivery of policy programmes. Policy institutions vary from country to country, so the discussion is general than particular (see Figure 2). We will attempt to review common strands in government institutions among different countries in a way that international experts, say, can usefully use in preliminary thinking about the country they are about to visit. As Considine puts it ..`our inquiry ...needs to pay attention to the evaluation of institutions, to understanding their limits as well as the uses they have for settling, calming and improving social interactions among actors in policy systems' (ibid, p.73).

Figure 1 shows six main types of government policy institutions found in most democracies, and key functions/processes within each. The legislature is the body of elected representatives, and the executive is a small group in charge of the day-to-day running of government business. In most countries there are two houses of representatives - an upper and lower house [UK], or a house of representatives and senate [US and Australia]. Systems of elections for representatives vary from country to country and are discussed further below. The appointment of the executive can also be by different means - in the presidential system [USA and France] the executive is appointed by the president, while in parliamentary systems [UK, Australia, NZ, Canada etc], the executive [or Cabinet] is normally drawn from the elected representatives and dominant party (Figure 2). In the British system, the elected president is replaced by the hereditary Queen or her representatives.

The parliamentary/presidential system is a centralised institution or group of institutions which provide the means of government of a country. The elected members represent the nation as a whole. The authority to govern is based on majority groups of elected representatives usually drawn from the political parties. Accountability is to the electorate at election time. The system requires a dominant group to work effectively. This is usually the political party with a majority of seats [first-past-the-post], or a majority of votes [proportional representation]. In turn, the party system imposes a group discipline on the members which protects the executive from threat from within, but also allows individual members to act independently of the electors who put them there. Centralisation of powers enables parliamentary systems to perform a greater range of policy making tasks than presidential systems, to be capable of better policy choices, and to be able to make sure these choices materialise as consistent programmes and outcomes (Considine 1996, p.76).

The executive is the body in the parliamentary system with the main policy making role. The executive commands the majority party and the house of representatives. The fact of their recruitment from among the ranks in the legislature and their necessary subservience to the collective interest of the Cabinet/executive means that

they are more apt to be like a board of directors than executive managers. This generalist background makes members of the executive dependent upon the supporting bureaucracy for policy advice and information. Even in those cases where Ministers develop an expert personal staff to check the power of their own bureaucrats, the bulk of policy development and almost all the work of implementation and evaluation is done by the public service departments over which the member ostensibly rules (Considine 1996, p.76). The relative power of the different groups is discussed further below.

The work of a parliament is expressed in the form of new laws or amendment of existing statutes. The functions of laws are to make customary rules binding on the citizenry and to give administrators authority to act in the name of the government. Most policy proposals have to pass through a system of review and discussion before they are approved by the house of representatives as law of the land. Exceptions are executive decisions made without reference to parliament. The initiation of policy proposals may reside in the bureaucracy in meeting routine requirements, or may reflect political initiatives promised at elections or in response to pressure groups. Such proposals can be subject to intense internal scrutiny and not all of them proceed to the next stage. Informal consultation with outside interests might take place. The formal proposition involving the new policy is presented to Parliament in the form of a Bill - in essence a draft Act of Parliament. This is 'debated' in the Parliament and may be referred to a subcommittee of the House [a select committee] for detailed consideration. Public submissions are taken at this stage in the British system. The fate of the Bill is then decided by the House - 'reading a Bill' with first, second and third stages.

Members of the parliament have to be re-elected on a regular basis - the exact time period required varies considerably. The size of the Parliament in terms of representatives is determined by infrequent constitutional changes and it may consist of an electorate-based membership, nominated members [based on total votes cast], or a mixture of the two [mixed member proportional representation]. Elections are a lottery for politicians as the result can be swayed by public opinion, the media, and external events for example. The power of the voter is at its greatest at this time and decreases sharply in between elections. The Westminster system has this attribute as compared with the US system where access to representatives is much more open. Different voting systems are in place in different countries, mainly being variations of different weighting systems for votes [proportional representation]. Elections are very fluid times in terms of policy formation, as political insecurity is at its greatest and alternative views and interests of pressure groups are much more obvious.

The Budget is a significant institution of parliament in itself as most constitutions require a financial accounting of the government's activities to be brought out into the open. The Budget is largely concerned with ongoing appropriations for government departments, but is also a policy document as it might change the way the revenue is raised [by taxes] or signal new policy approaches to an old problem. By and large, the Budget sets the fiscal stance of a Government, so that expenditure is matched by tax revenue or is funded by borrowing. In Westminster systems, Ministers bargain in secret for a share of the revenue. In the US the budget shares are debated in the two houses of Congress who have to reach agreement on the allocations. There is a large variation between countries in the level of government intervention in the economy. Recent trends are in terms of a reduction in involvement in the economy - fiscal conservatism (Schwartz 1996). Reasons for this are discussed further below.

Intergovernmental structures: In some countries [Australia, Canada, USA, Germany], there is a state or provincial parliamentary system in parallel with the national system - federal parliamentary systems. In others [UK, NZ, S. Africa], the national legislature is paramount and no sub-level parliamentary system exists. Federalism leads to a sharing of responsibility and a requirement for clearly defined areas of responsibility. By and large, federal structures increase the number of parties to be consulted and hence slow down the passage of legislation and new policy [veto points]. Most countries also delegate responsibilities to local government authorities with [usually] clearly defined functions and duties. For example, schools are a local responsibility in the UK but a national responsibility in New Zealand.

There are also regional groupings of countries such as the European Union. The EU has its own set of political institutions, set up by mutual agreement [constitution making], and its ongoing policy programmes. These programmes are administered in member countries [operational institutions], which tend to have their own distinctive structure/conduct/performance characteristics (Williams 1997).

The civil service: The parliament/congress is a democratic meeting of representatives of the people with a mission to meet the needs of the nation as a whole and the safety and welfare of the individuals who make up the nation. The functions of the parliament therefore require a large army of support staff to service the parliament[s], man the armed services, and administer the existing and new policy programmes previously agreed upon. The more interventionist the government, the larger the number of employees who directly come under the orbit of the national authority. Some governments require government departments to administer programmes, but others may utilise stand-alone but tax-financed entities for regulatory purposes [US], or state-owned enterprises which operate within their own revenues (Horn 1995, pp.40,170). At the head of the civil service will be the major 'policy' departments, which specialise in advising the executive and Parliament on different courses of action available to them. Other support staff are responsible for drafting legislation, running select committees, and co-ordinating the work of the appointed representatives. As quite major enterprises and employer of people, the bureaucracy has problems of efficiency and accountability of its own which are discussed later.

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Figure 1: Main Functions of Parliamentary Institutions

Broad Function	Function/process
1. The Executive and Legislature:	Election of the Legislature Selection of the Executive Authority and accountability Role of parties
2. Legislation:	Initiation of proposals Clearance to proceed and review Consideration and consultation Reading a Bill

3.	Elections:	Power of the voter Forms of representation Electoral rules Elections and policy change
4.	Budgets:	The Role of the Budget Policy role of the Budget Fiscal conservatism
5.	Intergovernmental Structures:	Federal systems Local government
6.	The Civil Service:	The policy advice system Efficiency and accountability

Source: Adapted from Considine (1996).

Variations in the Representative System

The above description is based mainly on the *party government* parliamentary system. There are a number of variations in the basic system found around the world based particularly on whether they are presidential or parliamentary systems and on differences in the use of coalitions and the rules which govern them. Weaver and Rockman (1993) recognise four main systems which they call *modal government types*. These are respectively: presidential systems, party governments, multiparty coalitions and single party dominants [Figure 2]. Their classification also identifies what they call *secondary government types* and *facilitating electoral rules* which identify coalition and minority party arrangements and different representation arrangements. These classifications are useful for two purposes; first, the reader can add his or her own experiences to the list or add to the categories, and second, they lead to further discussion [below] of decision making structures and processes with regard to policy delivery. Some attributes [discussed above] like federal systems of parliament do not lend themselves to such classification and may be found in all the modal types. Further details of the government types are found in the reference given.

Figure 2: Representative Systems in Selected Countries

Regime type and country	Modal government type	Secondary government type	Electoral rules
1. <i>Presidential system:</i> USA France	Separation of executive and legislative power	Parties can differ in executive and legislature	Multiple state representation (USA) Double ballot (France)
2. <i>Party government:</i> United Kingdom Canada Australia New Zealand (pre-1996)	Two major parties alternate majority control of government	Minority government Multiparty coalition government	Single-member-district plurality

<p>3. <i>Multiparty coalition:</i> Netherlands Belgium Denmark Norway Germany Israel New Zealand (post-1996)</p>	<p>Two or more parties govern in minimum winning coalition, with partners changed after elections</p>	<p>Minority single-party government Oversized coalition Majority single-party government</p>	<p>Proportional representation with low hurdles</p>
<p>4. <i>Single-party-dominant:</i> Japan Sweden (pre-1976) Italy (pre-1970s)</p>	<p>Dominant party rules alone or as dominant coalition partner for prolonged periods</p>	<p>Minority government by dominant party Coalition government by opposition parties</p>	<p>Proportional representation or multimember districts that encourage large parties and discourage small parties</p>

Source: Adapted from Weaver and Rockman (1993)

Governmental decision making processes

In comparing presidential and parliamentary systems of representation, Weaver and Rockman (1993, p.12) note that in parliamentary systems the head of the executive is drawn from the legislature and is dependent for continuation in office on maintaining the confidence of the legislature. In separation-of-powers systems, the chief executive is chosen independently of the legislature - usually by direct election - and serves a fixed term of office. The chief executive can neither dismiss the legislature and call for new elections nor be dismissed by the legislature without cause.

In turn, the party system is strong in parliamentary systems but weak in presidential systems². In the US in particular, representatives have more leeway to build a 'personal vote' for themselves and are less liable to co-operate with other representatives. Also in the US members of the executive cannot be recruited from the legislature. In France they may but must be replaced. In the US, Cabinet is weaker than in parliamentary systems, and bureau heads look to Congress for guidance and support. Finally, the lower level of party discipline in the US permits greater public access to policy makers and hence puts pressure on their representatives (ibid, pp.15-16).

Weaver and Rockman see a third and fourth tier of explanations for differences between all the regimes identified in Figure 2 [Figure 3]. Decision making structures and processes which vary across regimes include: cohesion of the government ruling elites, existence of veto points within government, stability of government elites, elite autonomy from short-term pressures, and level of interest group access. Fourth tier influences include: voting rules, judicial review, regionalism, federalism,

² Quiggin (1987, p.12) points out that political parties play a relatively small part in public choice theory. This is due to the limited role of political parties in the United States which is the home of public choice theory. In the above presentation, parliamentary systems are taken as the norm and presidential systems as the exception.

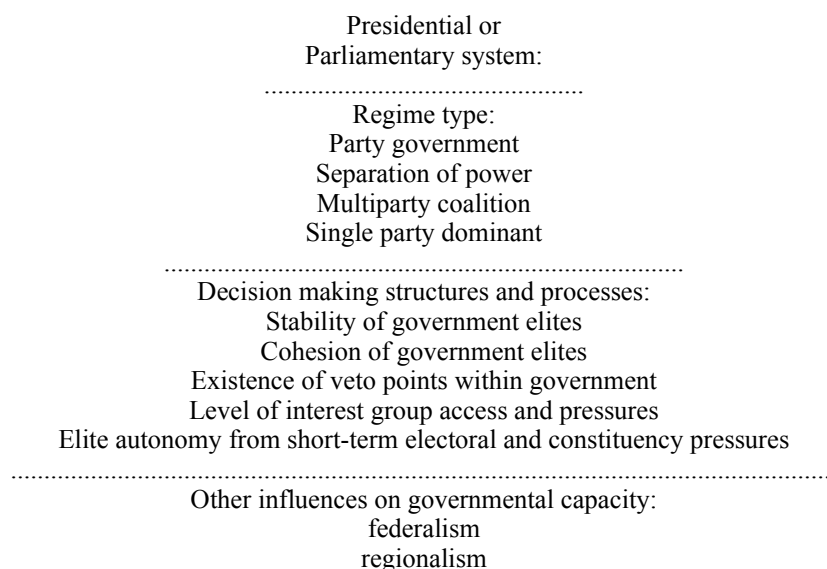
bicameralism, bureaucratic strength, political conditions, socioeconomic and demographic conditions and past policy choices.

From previous discussion it is clear that *party government systems* have a high degree of cohesion within the executive and the legislature, there are few opportunities for mavericks to veto a policy proposal in progress, the executive tends to be stable between elections, and the executive is generally inaccessible to interest groups! This is compared with *multiparty coalitions*, where elite cohesion is weaker, minorities may hold veto powers, the executive may not last between elections, and the elite may or may not be accessible to interest groups. In the *single party dominance regime*, there is high elite cohesion, few veto points, and high stability between elections! (ibid, p.18).

From the point of view of this review, Weaver and Rockman devote only a small section to the *implementation of policy*. They are mainly concerned with different capabilities to achieve chosen goals and note that some governments perform tasks better than others (ibid, p.445). The capabilities they isolate are: degree of policy innovation, capacity to ignore short-term electoral losses, capacity for priority setting and targeting resources efficiently, capacity to co-ordinate conflicting objectives, restrictions on policy implementation, ability to represent diffuse interests, ability to manage minor groups in coalitions, and managing for policy stability (ibid, p.448). The first five are performed best by governments with concentrated power, and the last three are performed best by governments with decentralised power. Party governments have greater control over implementation, while separation of powers governments face greater risks in implementation of policies. As far as *effective implementation* is concerned:

Concentration of power is important for implementation of a government's objectives and programs once they have been decided upon. The most obvious obstacle to effective implementation is additional veto points in the implementation process, which are most likely to involve third tier institutions such as sub-national governments or courts. But first and second tier institutions affect implementation as well by leading to policies that are either

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Figure 3: The Four Tiers of Government Capabilities



bicameralism
voting rules
judicial reviews
past party choices
political conditions
strength of the bureaucracy
socioeconomic and demographic conditions

Source: Weaver and Rockman 1993, p.18-24.

more or less difficult to implement or more or less stable. If executive-legislative conflict and intra-legislative squabbles in separation-of-powers systems lead to either 'bidding-up'³ or 'splitting the difference' in policy design, serious implementation problems could result. Policies may also be adopted without adequate funding. Party government systems, on the other hand, run the risk that policies may be reversed before they can be implemented. Political arrangements [notably single-party-dominant systems and to a lesser extent coalitional ones] that feature both a high degree of elite stability and a well-established consultation process are likely to be most conducive to effective implementation of government policies (ibid, p.457).

Economic and political models of Government

Against this simple structural description of government systems, economists and political scientists have developed several alternative working models that purport to explain how governments reach decisions, which, in turn, determine the structure and intended conduct of individual economic policies for agriculture or any other sector or interest. From these it is possible to set up a performance analysis for testing the efficiency and equity effects of a given policy programme. These working models are useful devices for country analysts to understand organisational problems that are likely to occur.

The public interest model: In this model, the national interest is achieved by parliament agreeing to legislation evolved from compromise and bargaining among the elected representatives. National interest can be broadly interpreted as the Benthamite 'greatest good of the greatest number' as seen in the eyes of the decision makers. Civil servants [bureaucrats] provide independent advice to legislators, and implement the policies that result from the political decision level. A career civil service based upon expertise and non-political appointments provides objectivity and freedom from partisanship. This system is said to be modelled on the British Westminster system and is found in most countries associated with the former British Commonwealth.

The economic role of government in this framework is to introduce policies that increase social welfare. The welfare maximisation perspective sees government as an omniscient and benevolent dictator (Swinnen and van der Zee 1993). Governments intervene in the private economy where it fails to function properly in allocating and

³ The case where the parties in Congress add programmes to a piece of legislation which considerably increases its cost (D.Hathaway, pers com).

distributing resources ['market failure']. The nation state can produce goods, internalise social costs and benefits, regulate decreasing cost industries, and redistribute income. In theory these actions can redistribute resources to maximise welfare.

Randall (1987) notes the philosophical lineage of this model from Rousseau, Marshall and Pigou. Its basic premises are that the true public interest will be revealed in the political process; that programmes to promote economic activity, to rectify market failure [to internalise externalities], to provide public goods and merit goods, and to promote equality of opportunity; all may be seen as enhancing the general welfare; and that continued vigilance and effort are necessary to ensure that government remains responsive to the public interest.

The individualistic model ['public choice']: This model is based on the idea that the nation state is not an organic body apart from the collection of individuals comprising it, and that the central role of economists is to analyse how efficiently government institutions enable individuals to express and realise their preferences about public goods, public services, and policies (Johnson, D.B. 1991. p.11). In this view, bureaucrats have their own preferences and goals which they can achieve by enlarging the size and budgets of their agencies. Politicians can achieve their goals by being elected to office and bestowing favours. Interest groups act on behalf of individuals in getting favourable policies passed in the legislature.

This model postulates that government decision making is subject to pressures from interest groups, lobbying, voting behaviour, as well as self-interest. Decisions tend to reflect the respective power bases of the participants. Randall (1987) notes the lineage of this model from the writings of Wicksell and Locke, as modified by Buchanan (1987) and Tulloch (1983). It employs a restricted version of the Pareto principle where any change that harms any individual is not an improvement. All rights are assumed to rest with the individual and to avoid anarchy, individuals rationally delegate some rights to a central authority. The emphasis is on voluntary exchange and freedom of choice; and on individual liberty. The cornerstone of liberty is a set of complete, carefully specified, secure, enforceable, and transferable property rights.

The resulting decisions made by government in this environment are said to reflect the 'private interest point of view'. Outcomes are determined by the respective power bases of the participants. Interest groups can earn economic rents from their activities by influencing political decision making. 'Capture' of politicians, agencies and civil servants is often observed ⁴.

⁴ James Q. Wilson, a political scientist and professor of Government at Harvard, has written widely on the behaviour of government agencies (Wilson 1980, 1989). In the earlier book he sets out to examine whether regulatory agencies in the US were subject to capture and motivated by self-interest. The broad questions he asked were: how were goals determined, how was conflict resolved or managed, how were standards set, and how was policy enforced? He identifies that it is the distribution of costs and benefits from a given policy proposal that shapes its design and implementation particularly with regard to interest groups (ibid, pp.366-370). In the latter book, he asks why agencies behave as they do, how government works, and how do they interpret their mandate? After a wide-ranging discussion including the German army, Texas prisons and Atlanta schools, he notes that the critical tasks are different in each case and so the organisations differed in culture and patterns of authority, but all three were alike in one sense: incentives, culture and authority were

Buchanan argues that it is inappropriate to apply maximising models to government policy formation, as wider constitutional issues have to be considered in such a process (Williams 1997, p.6). Policy acts are a matter of social organisation and should be approached differently. Given the ongoing nature of government policy making, economists should consider the economic problems of government not as agents seeking to maximise economic welfare but as arbitrators, seeking to work out compromises between conflicting claims (Buchanan 1975). The role of constitutions and rules is discussed further below.

Transaction cost models: These models focus on how governments are and should be organised. They deploy the rationality hypothesis and a theory of transaction costs to explain how government organisations work. They posit that effective public administration requires that transaction costs be minimised in determining and pursuing society's goals (Zeckhauser 1995). Legislators are regarded as self-seeking in their use of legislation to increase their net political support (Horn 1995, p.13). Their opportunities are limited by a number of 'transaction costs'. These are the time and effort it takes to reach agreement on legislative refinements and any time and effort that affected private interests have to subsequently devote to participating in implementation and administration; political uncertainty that the legislation will last; uncertainty that the legislation will be administered as intended; and, uncertainty about the distribution of private benefits and costs.

The legislators who are most likely to remain in power are those who are most successful in overcoming these transaction problems, such as those who are best able to reassure their supporters that the benefits of legislation will not be lost to administrators in the implementation, or undone by subsequent legislatures (Horn 1995, p.14). In this context, Horn draws on agency theory in his discussion of *implementation* of legislation. As he sees it:

- i. the enacting coalition and its constituents must rely on administrative agents to implement their arrangements - it must delegate to get things done;
- ii. these agents do not necessarily share the objectives of the enacting coalition and its constituents; and
- iii. it is very difficult to monitor these agents and create a system of *ex post* rewards and sanctions that will ensure that they act to protect the interests represented at enactment.

These problems create agency costs - that is the costs incurred to induce administrators to implement faithfully what was intended in the legislature, and the losses legislators and constituents sustain by being unable to do so perfectly. They include the costs associated with selecting administrators and monitoring their compliance, the costs of using *ex post* corrective devices [rewards, sanctions, and legislative direction], and the cost of any residual non-compliance that produces *a difference between the policy enacted and what is implemented* (ibid, p.19). There are a number of administrative mechanisms that legislators can draw on that minimise these costs: contracting out versus in-house delivery, tax-funded bureaux [departments], non-profit tax-financed regulatory agencies [as in the US], and combined in a way that suited the task at hand (ibid, p.365). The examination of the mandates of the agencies is more implicit than explicit in these books but the general thrust is highly consistent with the application of the conduct paradigm discussed in this paper.

revenue-earning state-owned enterprises [as in the British system]. Each has its advantages and disadvantages (ibid, pp.9,40,170).

Private interests have a definite interest in *implementation* (ibid, p.13).

Legislators and their constituencies [Horn's term for private interests] are seen as engaged in a form of exchange. Legislators want electoral support and constituents want private benefits - or to reduce the private costs - of legislation. The amount of net electoral support legislators receive from promoting a piece of legislation depends on the flow of benefits and costs that private interests expect it to generate over time. The implementation features of the legislation bear on this calculus because private interests are sufficiently forward looking to anticipate how *decisions on implementation* will affect the flow of benefits and costs. That is why there are often heated disputes over decisions on matters like the scope of delegated authority, the form of organisation charged with implementation, and the *procedures* administrative agents must adopt. These factors affect "who" ultimately "gets what" out of the legislation.

Thus the design of legislation reflects the interests of the different groups taking part in the political process and this may well have little regard for equity and efficiency considerations. Most important is what Horn calls the 'commitment' problem. The flow of benefits to legislators is often much more immediate than the flow of benefits to constituents (ibid, p.16). Constituents run the risk that present or subsequent legislative coalitions might undermine the benefits of given legislation. This is a problem for legislators because forward-looking constituents will assess the durability of future legislative benefits and costs and reflect that assessment in the degree of electoral support they are willing to offer. Thus legislators cannot guarantee constituents durable benefits but they can make binding arrangements that might tie down future legislators⁵. Constituents respond by seeking guarantees that these bindings will be entered into at the design stage, if, and when they are consulted.

Choice of administrative instruments: The transaction cost model suggests, other things being equal, that the national interest would be best served by governments choosing the most efficient instruments available to accomplish any given policy objective (Trebilcock 1995, p.25). The argument is that, whatever the policy objective, it ought to be achieved at the lowest social cost: nobody gains by needlessly dissipating resources. A set of axioms governing policy and instrument choice behaviour includes:

- i. choosing policies that confine the benefits to marginal voters [those whose votes count] and confine the costs to infra-marginal voters [those who are strongly committed to the governing party];
- ii. choosing policies that provide benefits in concentrated form and impose costs in dispersed forms;
- iii. choosing policies that will secure the co-operation of the bureaucracy;

⁵ Peter Bushnell (New Zealand Treasury) has pointed out to me that bureaucrats have a vested interest too in the commitment problem. Policy advice is often larded with little reminders that certain steps taken will change the direction of future fiscal commitments [like tying NZ old age pensions to the cost of living rather than the standard of living!].

- iv. choosing policy instruments that minimise real costs over time when they fall on a small group; and
- v. choosing policy instruments that bring benefits within the current electoral cycle.

It is said that these axioms 'explain' the problem of a mis-match between policy instruments and ideal policy objectives. Such mis-matching is unlikely to be the random product of mistakes, ignorance or stupidity on the part of collective decision makers, but in many cases is likely to reflect systematic incentive structures that the community has built into political institutions (ibid, p.27).

Institutional economics: The models of institutional economics emphasise the results of individual and co-operative attempts to solve problems posed in a world of potentially large transaction costs. The new institutional economics is said to be firmly rooted in a second best world where the relative efficiency of institutional arrangements is the concern. It acknowledges the importance of bounded rationality, complexity and costly information, combined with opportunism (Murrell 1994). These lead to the emphasis on transaction costs *and the belief that there may be a variety of institutional arrangements* that reduce transaction costs successfully. If co-operative solutions can be found, the emphasis on opportunism is decreased. If satisfactory norms of behaviour can be agreed, transaction costs are also reduced, in this view.

The literature emphasises the innovativeness of individual and collective attempts to solve transaction cost problems. They apply equally to private economic relationships as well as the political sphere, where co-operative efforts can result in new political constructs aimed at solving problems caused by poorly constructed property rights (ibid, p.202):

The picture emerging is one of complexity - arrangements or institutions of enormous variety and complexity that have been developed to solve the difficult problems that arise when economic interactions are other than the simplest kind of spot transactions. This picture does not give us the simplicity and harmony of the Newtonian system that is echoed in general equilibrium economics, but instead has all the complexity of a catalogue of the earth's ecology.

As Williamson states (1994, pp.171,193):

- i. institutions are important, and they are susceptible to analysis;
 - ii. the action resides in the details;
 - iii. positive analysis [with emphasis on private ordering and *de facto* organisation] as against normative analysis [court ordering and *de jure* organisation] is where the new institutional economics focuses attention.
-Taking institutions seriously is the first step. Working out the microanalytic logic of economic organisation is the second....my argument is that the institutional economics approach, especially of a bottom-up kind, helps inform these issues.

Constitutions and institutional rules: Constitutional economics is the application of economic analysis to the selection of efficient rules and decision making institutions (Johnson D.B. 1991, p.341). Constitutional analysis recognises a difference between operational and constitutional levels of decision making. The operational level

consists of decisions made within a given set of already existing and broadly accepted constitutional rules. The latter include voting procedures and means of raising the revenue. The constitutional level is where the rules of the game are established including the rules for the application of property rights. These constitutional rules are thought to be established in an atmosphere of conceptual impartiality because the future effects on individuals cannot be foreseen. Once established, they change only very slowly, but sometimes cataclysmically [the French Revolution for example⁶]. In between such times, individuals/corporates/governments operate in a relatively unchanging environment and can make operational changes in policies, revenue collection and so on [incrementalism].

Rules and conventions essentially make commerce and government easier to conduct. Rules are a time-saving and efficient way of individuals interacting (Johnson, D.B. 1991, p.345). Constitutional rules set the conduct of operational rules and do not need to be changed in the short term. In modern societies, characterised by multiple interdependencies and externalities, growth and increases in the standard of living have become increasingly dependent upon establishing an institutional environment that provides the correct signals, information and incentives to members of society. These institutions of society guide everyday conduct.

The growth of trade and commerce is dependent on such rules (North 1987, p.421). Modern societies have devised formal contracts, bonding of participants, guarantees, brand names, elaborate monitoring systems and enforcement systems to protect the individual but also to create security and confidence in commerce⁷. North calls this a well-enforced and well-specified system of property rights. He points out that the resources devoted to transacting are large [although small per transaction] but the productivity gains from trade are even larger. Governments have a co-ordinating and facilitating role in providing the environment where *transaction costs of trade and commerce* are minimised and property rights secure and protected. In turn, Governments can make international agreements that provide security of contracts and protection of property rights that thus facilitate trade.

Rules can be written [as in constitutions or international agreements] or unwritten [as with common understandings between individuals]. The conduct and performance of *public policy* depends on the extent to which a Government can design, adapt or modify the written and unwritten rules in its environment. Constitutional rules, particularly, are difficult to change easily, but when they do change, the changes to

⁶ In more recent times, the establishment of a semi-presidential system under the Fifth Republic in 1958 ended a prolonged period of unstable coalition government. The executive tightly controls the national Assembly's examination of the five year law programmes and the budget process with regard to the timing of debates, the information that will be supplied to Parliament, and amendments to the budget. Direct election of the President followed a subsequent referendum of the public (Weaver and Rockman 1993, pp.401-2).

⁷ These observations do not apply to countries with a civil code. Civil codes arising out of the Napoleonic reforms in France tend to circumscribe commercial relationships and hence property rights in order to protect the state. A civil code is resistant to reform. Effects on governance and commerce include high direct transaction costs, inflexibility, slow speed of transactions, the need to resort to the courts to resolve conflict, and a low level of effectiveness and efficiency of litigation (Sandiford and Rossmiller, *pers. com.*). On the other hand, the civil code has led to a high degree of professionalism in the civil service in France.

society may be quite profound. This appears to be the case in Australia at the present time as the Government seeks to find ways to implement the Mabo decision - a question of native property rights to land.

Rules are therefore important in the study of political institutions. They characterise the institutions surrounding political decision making. They help reduce transaction costs. They make policy formation easier and more productive. They reduce reliance on negotiating skills on a case-by-case basis in the presence of high transaction costs. They provide opportunities for increased efficiency and hence general welfare (Martin 1989, p.5). But they may increase litigation as they can be appealed and reinterpreted through the Courts. Secondly, they reduce uncertainty and promote solidarity between various participants in the political process through *the development of routines and standard procedures* (Considine 1996, p.71). When these settled sets of rules and codes for governing become fully acceptable, they form recognisable policy making and forming institutions such as parliaments, parties and bureaucracies as we know them. At their broadest, these institutions are any standardised behaviours which are regularly represented throughout the political or policy system that built up over a long time: 'institutions accumulate historical experience through learning. The results and inferences of past experience are stored in standard operating procedures, professional rules, and the elementary rules of thumb of a practical person' (Considine 1996, p.71).

The importance of these means for settling and defining what has been learned cannot be overestimated. Without them any social group would be forced to keep rediscovering the simplest ways of organising themselves and dealing with the common tasks of survival. As well as being practical devices for solving routine problems, institutions are the group's way of establishing priorities, fixing values, and turning profound philosophical problems into simple routines. How long the routine will hold is as important a question as asking what function the institution itself performs (Considine 1996, p.72).

New public management: This refers to a different but not unrelated set of ideas to public choice focusing on the introduction of better systems of management *in the bureaucracy* (Boston 1991, p.8). Aucion (1990, p.116) refers to two separate paradigms of government and management. The first is public choice theory which focuses on the need to re-establish the primacy of representative government over bureaucracy; the second is managerial theory which focuses on the need to re-establish the primacy of managerial principles over bureaucracy. Managerialism is a set of ideas emanating from sources external to public management *per se*, namely the literature on private sector or business administration. It stresses that the capacities of modern complex organisations to realise their objectives can be enhanced by management structures and practices that reduce bureaucrat procedures in organisational systems.

The two paradigms are likely to introduce a measure of tension, even contradiction, in their application to changes in organisation (op cit, pp.125-6). Public choice sees politics as pervading management; that is politics is present in both the formulation and the implementation of policies. Managerialism sees politics as present essentially in the determination of the basic values or missions, and thus the policies, of an organisation. Thus, in one case, politicians must 'tame' the bureaucracy via a concentration of power in the elected representatives, while, on the other, bureaucracy must be freed of excessive controls especially on line managers. In the first case, the

perceived need is to eliminate the capture of the bureaucratic organs of the nation state by groups that pursue their narrow self-interest in order that elected representatives be able to represent the public's interest in public policy; compared with giving high priority to the responsiveness of bureaucrats to their policy constituencies [policy capture].

Hood (1991) has identified the following components of the new public management: professional management in the public sector, use of standards and measures of performance, an emphasis on output controls, a shift to disaggregation of bureaucratic units, an opening up to competitive services, the introduction of private sector management styles, and more stress on discipline and parsimony in resource use.

These trends suggest a greater stress on management skills as opposed to professional skills, greater accountability through measures of performance, a shift from input controls to output controls, the separation of commercial from non-commercial functions, a shift to contracts and public tendering procedures, more flexibility within departments, and cutting costs in the public sector. Many countries and jurisdictions have embraced these procedures in recent years.

The policy advice and delivery system: So far we have referred to the relationship between the executive and the bureaucracy as that of a principal-agent. The altruistic model sees economic advisors [agents] giving independent and objective advice, and political decision makers [principals] making inspiring national interest decisions. The individualistic model sees the executive and the bureaucracy as competing forces with separate agendas, with the emphasis on self-interest. By way of contrast, the actual relationship between the executive and the bureaucracy is more likely to be characterised by a mixture of duties and obligations with changing emphasis on different aspects of policy making and direction.

In addition, the policy advice *process* itself is surrounded by considerable uncertainty, and a clear-cut principal-agent relationship is complicated by incomplete information in the exchange, asymmetrical information supply, and uncertainty as to any outcomes (Boston *et al* 1996). While the role of advisors is to process the necessary information that decision making requires, and put forward alternative courses of action that might be consistent with the stated aims of the executive, the role of the executive is to be seen to be acting in the national interest *and* meeting any sectional interests they may represent. Uncertainty about the ends of the policy proposed means that the process itself has to be viewed as a probabilistic problem rather than a certainty one.

The passive view of economists as advisors is that they only have a role in analysing the alternatives that face decision makers, and that they should not impose their own values into the political decision making process. It is pointed out that governments should define some objective function in terms of multiple ends or goals of economic activity, and economists should delineate what is possible and the costs and benefits of each course of action in this view (Blaug 1992, p.128). This is a technocratic view of the policy advice process.

The executive, or principal in this argument, may well have any number of well-defined and not so well-defined goals. In economic terms these are the preference functions of the executive and these may articulate national interest concerns and/or private interest concerns. Most commentators including Blaug believe that the

executive does not have a well-defined preference function, but is more engaged in a constant search for a new preference functions as a result of learning by doing.

Blaug says that any executive decision maker starts with on-going activities and gradually begins to define his/her objectives *in the light of experience* with actual policies. Political decision makers do not try to get what they want, rather they learn to want by appraising what they get. Means and ends are indissolubly related, and evaluation of past decisions, or technical advice about future decisions, have to serve this purpose (Trebilcock 1995, pp.24-29). Thus decision making is disjointed as it is repeatedly reviewed in bits and pieces [by different people]⁸, and it is incremental because it considers only a limited range of policies that differ little from existing ones. *Disjointed incrementalism* does not merely adjust means to ends but explores the ends while applying the means, in effect choosing the ends and means simultaneously (Braybrooke and Lindblom 1963)⁹.

Bureaucrats as deliverers/administrators of policy programmes have not been studied in such depth. However, the transaction cost approach of Horn *et al* [the Harvard University group] indicates that legislators do have a choice of delivery institutions at the policy formation stage, and that constituents are likely to be consulted as to that decision's effects on them! Once the delivery structure is decided, the buck passes to the delivery agent. The problem then becomes one of conduct rather than structure, as administrative details are unlikely to have been highly specified in the original enactment¹⁰. In this area, bureaucracies have their own sets of rules and conventions, which vary from country to country and institution to institution, but which will probably be the guiding force in determining the ongoing delivery of the enacted policy programme. According to Sandiford and Rossmiller (1996), it is this conduct stage which will primarily determine the resulting performance of the policy in terms of the original aims.

This discussion is a very important one with regard to the argument being developed in this paper. We have moved from a discussion of single purpose models of government to a view of the government process as a whole. The single purpose models explain various facets of government activity, but they do not adequately explain the total activity of the government system at any one time. The central idea of disjointed incrementalism is thus an attempt to generalise about public choice theories, transaction economics, and agency theory *as a whole* and yet learn from the

8 Braybrooke and Lindblom see disjointedness arising out the US plural system of many contributants to the policy process.

9 Blaug only refers to one part of the Braybrooke and Lindblom model (B&L). B&L (1963, pp.66-79) actually distinguish between incremental and large change, *and* low and high levels of understanding. The model adopted by Blaug, and used here is the incremental change and low understanding model. Decisions with incremental change and high understanding can be dealt with by the administrators; but decisions with large change, with low or high understanding, are not easily explained by the B&L approach. Constitutional economics also makes use of the distinction between small and large changes.

10 In US farm legislation, the struggle for power between the Congress and the executive has resulted in larger and larger farm bill texts. Farm Bills in the 1960s and 1970s ran to 200-300 pages; the 1996 FAIR Act exceeded 1600 pages as Congress sought to bind the hand of the Secretary of Agriculture (Sandiford-Rossmiller and Rossmiller, pers com).

process so as to better understand the policy delivery structures that were envisaged in the first place.

To sum up, Figure 4 shows the so-called 'iron triangle' of the political, bureaucratic and private interest groups, and the institutional functions of each that are addressed in part by the theories of government described above. As far as policy delivery is concerned, the most important parameters are those concerned with *policy design and implementation*. The structure set up at the outset to administer the policy proposal [new instruments or modifications of old ones] is very much a political decision, subject to legal and administrative advice. The actual conduct of the policy from that point passes into another group's area of responsibility. Here, as Figure 4 makes clear, a different set of functional goals come into play with a potential to modify the original intentions. The civil service is not without self-interest, in the sense that it is involved in administering the policy, monitoring its effects and reporting back [feedback]. This feedback loop, which is the more important one, at least in parliamentary systems, sets up further principal-agent conflicts over the success or not of the policy programmes. The recipients/clients/customers of the policies, or the private group interests and individuals [constituencies according to Horn], have clear cut private interests at heart. The interesting observation that Horn comes up with is that they also have a feedback loop both with regard to instrument design at the early stages of a policy initiative, and with regard to ongoing reporting of the success of the original policy proposal.

Figure 4: Institutions and Economic Theory

Participant	Institutional Functions	Theory
House of representatives: (Principal)	National interest policies Revealed preferences Private agendas Design&Implementation Consultation/feedback Commitment	Altruism Public choice Public choice Transaction costs Transaction costs Transaction costs
Civil service: (Agent)	Policy advice/national interest Policy advice/private agendas Administration/implementation Accountability Efficiency Consultation/feedback	Altruism Public choice NPM/ trans costs NPM NPM Transaction costs
Groups/Individuals:	Group interests Consultation/feedback/design	Public choice Transaction costs

NPM = new public management

Case studies revisited

The role of institutions in policy delivery can now be re-assessed. I have fuller information on the studies of EU milk policy and NZ wheat policy (Williams 1997, Sandrey and Reynolds 1990, Nixon 1993). We need to focus on the transaction cost

implementation model with respect to: aims of the enacting legislation, consultation at the enactment phase of the legislation, choice of instruments, conduct of the delivery agents, and performance in terms of the original aims. We conclude with discussion of the role of institutions in policy delivery.

With regard to the aims of EU milk policy, Williams (1997, p.107) states :

The performance criteria are here being used endogenously: the focus of attention is a judgement of how effective and efficient the policy and its delivery system is in fulfilling its *stated aims*. Many discussions of the CAP [especially those emanating from the UK] usually implicitly adopt a marginalist approach in which judgement is passed on the system in relation to what the writer *believes* would be the outcome of a free-market situation. Such discussions frequently dismiss *the aims* of the policy without discussion and never consider the policy delivery system. Nevertheless, the policy exists to fulfil the requirements of Article 39 of the Treaty, which remains in the original form and as such is part of "the economic constitution" of the 15 member states. Moreover, the narrower aims of the policy legislation, particularly as stated in the articles of 804/68, remain the law of the EU. The EU has an agreement with the contracting parties of the GATT: this may require fundamental modifications to the milk policy but not to the Treaty, as Article 39 is not currently on the agenda of the Inter-Governmental Conference for the revision of the Maastricht Treaty. Therefore the analysis of milk policy... considers the policy in relation to its aims and does not question the aims themselves. (italics in original)

Consultation at enactment stage: The milk policy is determined by the European Commission in Brussels; the interests of the different original members of the Union had to be taken into account in drafting Article 39. The producer interests are very powerful in France and Germany in particular, and the enactment owes a lot to them though Williams does not specifically say so in his study, but states (ibid p.20):

Around the central process of Community decision making through its principal institutions there is considerable opportunity, particularly in agriculture and the dairy sector, for the activities of pressure groups and "industry experts" [usually the representatives and employees of powerful organisations in the industry]. Farmers' unions are represented in Brussels through the activities of COPA [Committee of Agricultural Producer's organisations in the EC] and co-operative marketing organisations are represented through COGECA [the general Committee for Agricultural Co-operatives in the EC]. The dairy trade also has a European organisation, [EDA - formerly ASSILEC] the European Dairy Association, with representatives in Brussels. Each of these bodies is able to obtain representation on the Commission's Milk Advisory Committee, and through this channel farmers and industry marketing organisations can exercise influence on proposals to be made to the Council as well as on the implementation of policy by the Commission.

Choice of instruments: The author does not discuss alternative instruments that might have achieved the CAP's' aims. The problems met in formulating the common policy for milk are referred to as follows (ibid, p.31):

It took the original Six members of the Community eleven years to achieve a common policy for milk and the other major commodities of cereals and beef. In the milk sector each member state had differing levels of protection for milk producers and different methods of achieving it. In Germany and the Netherlands the liquid milk market and the manufacturing or industrial milk market were separated with elaborate methods of pooling prices between the two to obtain the producer price. In order to establish free trade within their borders the Six had to harmonise support prices and intervention measures, eliminating border taxes and controls between themselves in transitional steps, and establish a common level of tariffs on imports of dairy products from third countries in matching steps. Export refunds had to be established and harmonised *pari passu*. The transitional system introduced a mechanism with a set of intra-Community levies on trade to be gradually eliminated in a series of steps as external tariffs and internal intervention measures were harmonised. Agreement in this process was achieved by the gradual alignment of the level of protection afforded by measures in the highest-price country.

Conduct of delivery agents: The Williams paper is a *tour de force* in its discussion of the implementation of the milk policy in the different member countries of the EU. There is a three tier system of implementation :

.....at the first level are the Community institutions that are involved in policy making and objective setting, as well as in the implementation process. At the second level are the institutions of national governments [15 of them] each having some flexibility, albeit limited, in operating the system. At the third level are the marketing agencies who are responsible for their own strategies in a competitive market, and are affected by the normal factors in a market Structure-Conduct-Performance relation of investment, economies of scale, product differentiation, advertising and brand loyalty, research and development, and consumer demand for dairy products.

The different attitudes of the bureaucracies in member states to quotas have given rise to much variation in milk prices (pp.77, 109):

...the amount of variation in the system throughout the Community is very considerable.At one extreme, the Republic of Ireland has generally had the lowest price with prices sometimes below 90 per cent of the Target Price i.e. below the intervention milk equivalent price. At the other, Italian producers have had prices estimated to be as high as 130 per cent of the Target Price...Ranges of this magnitude and variability could not reasonably have been said to have been the intention of the original designers of the policy who sought to eliminate variations that might occur through any arrangements that would protect local liquid milk prices. Explanations of price differences are complex and may relate to many structural differences between countries, the size of the processing/marketing organisations and economies of size, product differentiation, brand loyalty, and the management and ownership of marketing organisations.

Performance in terms of original aims: Williams finds that the *average* target prices achieved from 1989 to 1995 over the 8 member countries were very near to that aimed for but that there was marked variation between countries [as discussed above].

He notes average farm incomes have risen from 1978/79 to 1990/91 while the target price measured in ECUs moved very little. He attributes the positive structural changes which have taken place to the quota system and assistance for 'outgoers'. Most member states have succeeded in keeping to within one per cent of their national reference quantities in most years. There are also other comments on efficiency, enforceability and equity, which generally suggest that the original aims of the policy are being met.

Summary: this study presents a sympathetic and positive view of the EU milk policy which is broadly seen to be carrying out the aims originally enacted. By separating the delivery of the policy aims from the aims themselves, the author brings a new focus to the conduct and performance of a given policy initiative. He concludes that to be effective, analysts should always start with the aims and objectives of given policies and recognise that when they have been absorbed into a hard-fought-for constitutional agreement [the Treaty] they will be very hard to change indeed.

The demise of the New Zealand [NZ] Wheat Board

Marketing boards are legislative instruments set up to control fluctuations in prices and production ostensibly in the interests of producers. They are common in Australia and New Zealand though now being gradually phased out. The NZ Wheat Board was established in 1965, in a process of consolidation of previous market interventions with powers, not unlike those of EU milk policy, to balance production and imports of wheat, determine farmers' prices, determine milling and manufacturing margins, and to recommend the price of bread to Government. In the discussion that follows, the Government of NZ is taken as the principal, the Wheat Board is the agent responsible for administering the policy, and the constituents are the wheat producers, the private millers, the private manufacturers using flour, wholesalers and retailers selling products with flour ingredients, and consumers. The same questions are asked of the original sources.

Aims of the enacting legislation: The NZ Wheat Board was set up by Act of Parliament in 1965 to rationalise and co-ordinate wheat production and imports and regulate the prices and quantity of flour. The Board was required:

- i. to control the acquisition and marketing of wheat and flour generally;
- ii. to encourage wheat growing and the use of wheat grown, having regard to the best use of land available, the cost of imported wheat, conservation of overseas funds, and other relevant considerations;
- iii. to ensure that adequate supplies of wheat and flour were available; and
- iv. to promote and organise the orderly development and greater efficiency of the wheat and flour milling industries.

Consultation at the enactment phase of the legislation: There was a considerable history of intervention before 1965. A wheat purchase board had been created in 1933 with power to purchase all wheat and fix prices to the growers and millers, but not on imports. In 1936, a Wheat Committee was formed to take over sole responsibility for the buying and selling of all wheat, including imports. Price controls were introduced in 1939 for the wheat, flour and bread sectors. In 1962, a Commission of Enquiry was instituted and it recommended the consolidation of the existing arrangements, including price control, in a new enabling Act. A commission of enquiry approach suggests that interested pressure groups were fully consulted in the public process of

consultation, though the sources are silent on the design aspects of the legislation itself [In practice, in the NZ parliamentary system, legislation is framed by the bureaucrats and interested parties have only limited access, but access nevertheless, at the Select Committee stage of a Bill.]

Choice of instruments: Again the two sources do not discuss alternative instruments that might have been available at the design stage (Sandrey and Reynolds 1990, Nixon 1993). Documentation of alternative instruments discussed at the time would be hidden in departmental archives. It is significant that both sources mostly document needed changes to the legislation after the legislation was no longer fulfilling its aims. They do not analyse whether the original aims of the legislation were met in the intervening period!

Conduct of the delivery agents: The NZ Wheat Board administered the legislation from 1965 to 1987 and from 1980 had to meet an increasing number of regulatory changes introduced by the Government. The documents consulted rather indicate that the Board as the Government's agent was faithful to the aims laid down for them but that external events overtook them (Sandrey and Reynolds 1991, p.127):

The key decision concerned the purchase price of wheat from farmers, a price set to recoup all Wheat Board costs, as this subsequently triggered other decisions such as the consumer price of flour. Each flour miller was paid the calculated cost of processing wheat into flour. These costs were independently calculated for each mill, leaving millers with limited commercial interest in the price of wheat. Indeed the only Board members who had a strong commercial interest in the price paid for wheat were the farmers. The Board maintained a pricing policy designed to encourage domestic production of wheat and, therefore, self-sufficiency.

Prices: The sources are not precise on the course of producer prices, import replacement prices and prices of alternative enterprise products during the Board's administration. It appears that Australian wheat could be landed in NZ more cheaply than equivalent NZ grown wheat in most years and that pastoral products [especially lamb production] were competing for the same land¹¹. The Board was thus forced into large imports of Australian wheat [up to 100,000 tonnes in some years] to meet its adequacy commitments.

In the event, the Government removed price control on bread in 1980, introduced a producer price based on a three year average of landed Australian prices in 1981, abolished flour, bran and pollard price control in 1984, and eventually required that the Board cease trading in 1987.

Performance in terms of the original aims: The original aims were focused on producer welfare with the system being driven by producer price negotiations with Government. One commentator stated (Ali 1993):

It was very much a supply driven system, emanating from the growers, whereas consumers were largely tamed by regulations.

¹¹ Sandrey and Reynolds (1990, p.132) state that in 1974 and 1975, and in 1981, 1982 and 1984, NZ producers were receiving *less* than the equivalent Australian price though not in other years.

The legislation was enacted in a period when intervention in markets was highly fashionable among politicians and bureaucrats. The interesting feature of the legislation is that a once-removed marketing agency was chosen to administer the policy, which, in other areas, was carried out in administrative departments. The Board consisted of representatives from Government [including the chairman], and industry representatives from producers, millers and bakers. The Board was handicapped by its charter with its emphasis on encouraging domestic wheat growing which the Board interpreted as promoting self-sufficiency (Nixon, p.23). Finally the Board had to negotiate a producer price with the farmers' interests that still required approval by Ministers. The conclusion must therefore be reached that it was the structure that was at fault and not the agency administering the policy. This is, of course, contrary to the views given in the documents and the popular view of events in the period concerned. But it does confirm the Williams view that policy delivery must be examined in its context, and not judged out of context!

Without regulation of prices and margins, there has been a reduction in the farmers' interest and an increase in the power of the millers and bakers. The position of the millers and bakers has been enhanced by amalgamation and take-overs and increased market power. The system is now driven by quality considerations in both grain and flour and by baking techniques. The price system is driven by international prices and competitive forces within the industry. The quality and diversity of products has increased considerably (Nixon 1993).

Concluding observations¹²

The major problem with a review of this sort is to encompass a wide enough set of institutional experience to make generalisation possible. This review is more of a framework for further analysis than a full testing of the general hypothesis.

While the viewpoint of agricultural policy implementation has been adopted, the analysis should be robust enough to cover a wide range of economic policy experience. This is the value of James Q. Wilson's comparative work on the behaviour of bureaucracies¹³. The test is whether transaction cost theory 'explains' what happens in different countries and parliamentary systems? The evidence reviewed suggests that policy making and implementation is a political process where information and expected effects on constituents are important considerations, and that these characteristics are fairly universal across countries and parliamentary systems. For country economists in international organisations, there is thus a need to apply these principles and collect comparative information on different political constitutions and their workings.

The primary lesson to be learned is to evaluate past policies in their own context. The institutional/structural design of a policy is important. The relationship between the

12 It should be made clear that this discussion is principally about government economic programmes as applied to agriculture. It needs to be tested whether the framework would be applicable across most government economic programmes. See also footnote seven.

13 The evaluation of different policy initiatives in different subject areas from economics will obviously vary from subject to subject. But the structure/conduct/performance paradigm should apply to most evaluations of economic and social programmes.

legislators and the constituents [to use Horn's terminology] has an effect on design and implementation. Bindings made on successors and on implementers may be introduced to improve the acceptance of the policy. At this stage, alternative policy instruments will be considered. It is in this sense that 'institutions' are most important in the evaluation of policy initiatives.

The main theoretical support comes from transaction cost economics as applied to public administration. This could be regarded as part of, and consistent with, the new institutional economics. What are the policy attributes that bring the different actors together? What impediments have to be overcome? How do the actors work together to find solutions? How lasting is the legislative design? Are monitoring processes set up and so on?

From the author's experience within the agricultural bureaucracy in a single-house party-parliamentary system [New Zealand], the task of *ex post* policy evaluation is a job most civil service organisations should be engaged in but very often are not! Judgements on the need for change in a policy programme may come from both the political clientele and/or the bureaucrats who manage it. The information balance is heavily weighted in favour of the bureaucrats, especially where they have monitoring systems in place. In forming policy proposals, the economist's contribution is diluted by other generalists and legal people who actually write the parliamentary bills. The bills themselves are then subject to political compromises which further confuse the original economic aims. The choice of instruments is extensively debated by bureaucrats but may be changed in the final decision making process after further political consultation. A pure economic approach is not possible. Thus the institutions of government in New Zealand were characterised by a narrow distribution of power, party government, few veto points, a low level of consultation and review, and a responsible but dutiful bureaucracy¹⁴ [prior to 1996]. Policy proposals therefore tended to be passed relatively quickly but also changed frequently. Since 1996 coalition government has raised the number of veto points and raised the level of consultation; policy formation and agreement is now much slower.

The New Zealand system might be compared with Australia in this respect. In 1973, an Industries Assistance Commission was established, on the recommendation of Sir John Crawford, to advise the Federal Government on assistance which should be given to, or withdrawn from, industries in Australia. Crawford identified the following reasons for establishing the Commission (Uhrig 1983, p.4):

- # assist the Government to develop policies for improving the allocation of resources among industries in Australia;
- # provide advice on those policies in an independent and disinterested manner;
- and
- # facilitate public scrutiny of these policies.

The Commission was to report back on matters referred to it but could also initiate enquiries under certain circumstances. The Commission later became the Industries Commission and then the Productivity Commission. While the focus was on the need

¹⁴ Formal review of policy is provided for by the Audit Office, Regulatory Impact Statements to Cabinet, and the Crown Company Monitoring and Advisory Unit. The Audit Office has a statutory requirement to provide reports on whether public sector organisations operate, and account for their performance, *in a manner consistent with Parliament's intentions*. See Annex 1 for details of these arrangements.

for industry assistance, there is an implication in the aims of the legislation that the implementation of the policy and the suitability of the instruments should be assessed. After reporting back, the Commission's input becomes part of the central government's decision making system and wider departmental and political programmes become influential¹⁵. As in most party parliamentary systems, the design of legislation is an internal matter where initial proposals are modified and reformulated to meet the needs of the participants in the political market place. In Australia, this is a complex process due to a two-house system of federal parliament and 5 state parliaments which make for a slow policy-making process (H Plunkett, pers com). Thus the institutions of government in Australia are characterised by a wide distribution of power, party government, active veto points, a high level of consultation and review, and a responsible but dutiful bureaucracy.

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¹⁵ Similar processes are carried out by the Australian National Audit office. These are strong on administrative detail about implementation and alignment with professed objectives, but are not critical of policy *per se* (H.Plunkett, pers com.). Regulatory Impact Statements are mandatory for all Commonwealth legislation or regulation that has the potential to affect business. 'The costs and benefits of regulation will be weighed up carefully to ensure that the putative benefits are not outweighed by excessive economic and financial costs, including the compliance cost on business' (*Prime Minister Howard 1997, p.vi*).

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Annex 1: Policy Review Procedures in New Zealand Government System

1. Departmental: Until recently there were no formal requirements [but see 2 below]. Cabinet papers making new proposals or proposed adjustments to previous legislation required a background statement of previous enactments and cross-references. The reasons for change should emerge from such a statement. Design of instruments should be addressed if relevant. Consultation was not mandatory [but see 2 below]. Background papers based on a form of structure/conduct/performance are optional but are not a requirement. Background papers may be contracted out. Ministers seldom involved in formal consultation, but Select Committees of the House of Representatives may call for submissions on legislative enactments.

2. Regulatory Impact Statements¹⁶: As of July 1 1998, all policy proposals submitted to Cabinet which result in government bills or statutory regulations must be accompanied by a Regulatory Impact Statement, unless an exemption applies. The Statement should consistently examine potential impacts arising from government action and communicate the information to decision-makers. Completion will provide an assurance that new or amended regulatory proposals are subject to proper analysis and scrutiny as to their necessity, efficiency, and net impact on community welfare. The Statement should contain the following information:

- a. a statement of the nature and magnitude of the problem and the need for government action;
- b. a statement of the public policy objective;
- c. a statement of *feasible options* [regulatory and/or non regulatory] that may constitute viable means for achieving the desired objective(s);
- d. a statement of the *net benefit* of the proposal, including the total regulatory costs [administrative, compliance, and economic costs] and benefits [including non-quantifiable benefits] of the proposal, and *other feasible options*; and
- e. a statement of the *consultative programme* undertaken.

[presumably the statement of net benefits could be followed up in an *ex post* sense at a later date and comparisons made].

3. The Audit Office¹⁷: The Audit Office exists as a constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government. The Audit Office, as an Office of Parliament, is independent of the executive branch of government. The Office's role is to assist Parliament to strengthen the effectiveness, efficiency, and accountability of the instruments of government. This role is discharged by providing reports on whether public sector organisations operate, and account for their performance, in a manner *consistent with Parliament's intentions*. The outcomes sought are that Parliament and the public will be confident that public

¹⁶ From *A guide to preparing Regulatory Impact Statements*, Ministry of Commerce, Wellington, October 1998.

¹⁷ From *Annual Report 1997-98*, The Audit Office, House of Representatives, B28.

sector organisations are: *delivering what they have been asked to*; have operated lawfully and honestly, and have not been wasteful; and have fairly reported their performance in their statements of account (italics added).

4. The Crown Company Monitoring and Advisory Unit: Crown companies are fully owned registered companies subject to the Companies Act 1993 but where the shareholding is still held by two Ministers of the Crown. The Crown Company Monitoring and Advisory Unit (CCMAU) was established in 1993 to ensure that the investment is performing to the best of its ability, to collect information on performance of the companies, and to provide advice to Ministers. CCMAU is an independent unit attached to the Treasury department. CCMAU's approach is to maximise the performance of the individual companies in which the Crown has an ownership interest.. To meet this objective from a company-level perspective, CCMAU focuses on:

- a. the formation, structure, investment and continued ownership of individual companies,
- b. business strategy and the associated risks and opportunities,
- c. ensuring the most qualified directors are recommended for appointments,
- d. performance, in absolute terms, against benchmarked companies,
- e. the impact of government policy and regulation on individual companies or groups of companies, and
- f. innovation, best practice and continuity of essential services (CCMAU 1998).