A Reappraisal of the Economics of Government

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August 1996

UNE Working Papers in Economics No. 23

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ISSN 1321-9081
ISBN 1 86389 362 8
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Abstract

The conventional theory of market failure has traditionally provided the economic basis for government intervention in a market economy. More recently, the literature on government failure has emphasised the deficiencies inherent in public policies aimed at remedying perceived instances of market failure. Despite arriving at diametrically opposed policy prescriptions, these two paradigms share a common methodological focus on evaluating policies and institutions by examining behavioural responses to incentives, with values, hopes, habits and social norms taken as given. This paper seeks to develop ways in which these aspects of human motivation can be incorporated into economic analysis. We argue that the conventional economic approach to the functions of government should be broadened to include leadership which government can provide to mobilise citizens to commit themselves to a shared vision to the good society.
In his recent "distinguished lecture on economics in government" Henry Aaron (1994) gave expression to some of the unease even mainstream economists experience when they reflect on the adequacy of their tools in dealing with complex social issues. Aaron confessed that after reading about the "interlocking web of social pathologies" in communities facing a daily diet of "illicit drugs, random violence and murder, unemployment, truancy, theft, abandonment and despair" he was left feeling "stunned". He found that he could not avoid asking the following questions:

"Are the methods we economists use adequate to the task of evaluating how policies affect such communities? For that matter, are they adequate for evaluating how policies influence other major social problems including violent crime, out-of-wedlock births, or poor school performance? To put the matter more aggressively: are we even making any progress in answering these questions?" (Aaron, 1994, 4).

This paper will attempt to formulate a response to these questions. It will examine the "market failure" paradigm which has provided the traditional economic rationale for government intervention. It will go on to consider the scepticism about the capacity of governments to intervene rationally to alleviate market failure which is reflected in the contemporary "private interest" approach to policymaking with its emphasis on "government failure". Despite their different approaches to evaluating the scope for government intervention in a market economy, these two paradigms share in common a preoccupation with evaluating policies and institutions by focusing on behavioral responses to incentives, with values, hopes, habits and social norms taken as given, and beyond analysis and the reach of public policy.

This paper will attempt to break new ground in analysing how these sources of human motivation can be brought within the reach of economic analysis. It will focus on the ways in which people can be motivated by hope to actively participate in public action to overcome chronic social problems, and will suggest how the conventional view mainstream economists have of the functions of government should be broadened to incorporate an understanding of how government can provide leadership which mobilises groups of followers to commit themselves toward the realisation of a shared vision of a good society.

ECONOMIC BASIS FOR GOVERNMENT INTERVENTION

The determinants of government policies in advanced democracies are complex and not well understood by social scientists. Numerous groups, including voters, interest groups, political parties, public bureaucracies, and the media, are involved in policy
formulation and implementation. Public policy is thus determined in an environment characterised by many competitive pressure groups, and since their demands may be fundamentally conflicting and power is dispersed, political decisions must be reached by bargaining and compromise. Accordingly the policy formation process cannot be regarded as rational, well-coordinated or efficient. It is thus difficult to estimate the impact of ideological and analytical elements on public policymaking. Nevertheless, it seems safe to assume that insights drawn from the social disciplines, including economic theory, do have some influence on the policy process. Indeed, it shall be argued here that prevailing economic doctrines have exerted powerful effects on both the nature and extent of government involvement in the market economies of western democracies.

The notion that the pursuit of rational self-interest by individuals engaged in the exchange of property rights through market institutions results in socially benevolent outcomes represents one of the most important insights of economics, and can be traced back to Adam Smith's famous doctrine of the "invisible hand" in the Wealth of Nations in 1776. In essence, this argument holds that maximising behaviour by individual economic agents in market relationships generates a socially rational use of scarce resource under certain defined conditions. Moreover, the voluntary exchange of goods and services through the market mechanism is itself a positive sum game for all participants since exchange enhances mutual welfare. Because the behaviour of homo economicus leads automatically to pareto optimality in consumption and production, this eliminates the necessity for active policy intervention, and thus creates a strong case for the role of government to be limited to the definition and enforcement of property rights.

The doctrine of the invisible hand has not only proved to be extremely durable but it has also been very influential. For instance, in the great debates surrounding free trade Smith's arguments had largely carried the day, at least amongst economic thinkers. Paul Bairoch (1993, 17) has put the matter as follows:

"Book IV of Adam Smith's The Wealth of Nations is essentially a defence of free trade at the international level. Smith's book (published in 1776) became the leading work in economics at the end of the eighteenth century. In England eight editions were published before 1800; and before 1796 it had been translated into almost all European languages. The direct or indirect successors to Adam Smith, which means, for most economists, all the founding fathers of modern economics, adopted a liberal position on international trade."
Similarly, Smith's views on the role of government in society became widely accepted in the nineteenth century, and this acceptance was mirrored in the limited nature of government intervention in the economy during this period, at least in Great Britain and the United States.

Since Arthur Pigou's momentous *Economics of Welfare* in 1920 modern welfare economics has been largely concerned with the development and refinement of the conditions necessary for the effective operation of the invisible hand: that is, the underlying conditions which must be met for a perfectly competitive or decentralised system of price determination to efficiently allocate scarce resources amongst alternative ends. The discovery of these necessary and sufficient conditions for economic efficiency led to the systematic identification of generic instances where markets "failed" to produce allocatively efficient results. In essence, the existence or absence of several factors can prevent the rational self-interest in exchange or market processes characteristic of the invisible hand from generating socially desirable outcomes. This phenomenon is termed market failure and provides the intellectual basis for extensive government intervention aimed at achieving economic efficiency in market economies. Market failure in this sense refers to the inability of a market or system of markets to provide goods and services either at all or in an economically optimal manner.

Welfare economists have identified six general sources of market failure. Firstly, for Adam Smith's invisible hand to operate properly markets must be competitive rather than monopolistic or oligopolistic. Various reasons exist for the absence of competition in some defined market. Geographic factors such as large distances or isolated locations can mean limited competition. The vast outback of Australia, for example, contains numerous small communities often serviced by a single retail supplier. Similarly, limited ownership of some natural resource can confer monopoly power on a producer. Governments may often create monopolies through the legal system. For instance, patent laws grant monopoly rights to inventors for specified time periods, and gaming operators are usually given exclusive control over casinos in particular jurisdictions. However, most significant in the present context are barriers to entry into an industry which arise from increasing returns to scale. This necessarily implies decreasing unit costs over large volumes of output and the potential for natural monopolies. Because of the technological nature of production in industries of this kind, competition simply cannot exist. This source of market failure is most commonly evident in the provision of services like electricity, water, railway networks and post offices.
Traditionally government policies towards competition as a potential source of market failure have taken two general forms. Firstly, laws have been promulgated which seek to prevent collusion and other defined types of anti-competitive conduct amongst producer groups. And secondly, public policies have sought to deal with the problems associated with natural monopoly by either nationalising the industry in question, generally the preferred approach in western Europe, or by regulation, and especially rate of return regulation, the policy instrument most favoured in the United States.

A second source of market failure resides in the existence of positive or negative externalities involving an interdependence between consumption and/or production activities, and resulting in a divergence between private and social costs and benefits. Perhaps industrial pollution is the most widely cited example of a negative production externality. In essence, the problem posed by externalities is that the resource allocation yielded by markets will not be efficient because market prices do not reflect the full costs and benefits involved, and accordingly will not generate socially efficient levels of consumption and production.

Conventional policy responses to externalities almost always resulted in government intervention. Two generic forms of intervention can be identified. Firstly, direct intervention sought to supersede markets and embraced direct government production and regulation. Thus governments often impose standards on food hygiene, water and air pollution, etc, and provide vaccination and other medical services in the event of epidemics. Secondly, indirect intervention attempts work through the market mechanism by means of taxes and subsidies. For instance, because education is supposed to confer benefits on society at large in addition to those bestowed on the recipients of education, it receives large subsidies from the fiscus.

A third kind of market failure stems from the inability of private markets to produce public goods. Numerous public goods exist which cannot be provided through the competitive market process due to their particular characteristics. Pure public goods are said to be both nonrival in consumption and nonexcludable in consumption. Nonrivalrous consumption occurs where one person's consumption does not reduce the good's availability for consumption by others as, for instance, in the case of national defence. Nonexclusion means that producers of the good are technologically and/or economically unable to prevent individuals from consuming the good as, for example, in the case of radio transmissions.

Given these characteristics, there is no incentive for private firms to provide public goods and accordingly they must be furnished collectively through either private voluntary arrangements or through government agencies. If public goods are provided
through the public sector, this need not necessarily imply public production, but may simply mean public provision through contracting. Thus, whilst some public goods, like law and order, are produced directly by government through justice and police agencies, other public goods, like highways and water reticulation systems, are provided by governments, but constructed under contract by private firms.

The efficient operation of the invisible hand implies that markets will provide all goods and services where demand is sufficient to cover the costs of supplying these goods and services. Where this does not occur economists argue that incomplete markets have resulted in market failure. It is often argued that this form of market failure is especially evident in insurance markets and capital markets. In many countries governments intervene to provide loans (or at least guarantee loans) to categories of home mortgage borrowers, small businesses, export industries, and farmers in the belief that private credit markets would not provide capital in the absence of such intervention. A related form of market failure due to incomplete markets focuses on the purported absence of complementary markets. Complementarity between markets is said to occur where activity in one market is dependent on the existence of other, related markets. For instance, large scale property redevelopment in modern cities typically requires extensive coordination between local authorities and many private firms, which is often provided by government development agencies on the assumption that the necessary level of coordination would not be forthcoming without public intervention.

An additional source of market failure resides in the fact that economic agents on one or both sides of a market may possess incomplete information, or available information may be asymmetrically allocated amongst market participants. Akerlof's (1970) famous analysis of the market for used cars, where dealers possess superior information about the quality of automobiles, and in particular the existence of "duds" or "lemons", is a good illustration of this source of market failure.

Market failure due to information failure has lead to widespread government intervention in developed market economies. Much public policymaking has focused on measures to protect consumers, especially product labelling and the disclosure of product content. But direct government intervention has also been evident. Weather forecasting, for example, is usually produced by public agencies as a means of disseminating information on weather patterns.

A final source of market failure is often argued to exist in the macroeconomies of market societies in the form of the business cycle. Periodic downswings in economic activity result in unemployment and falling incomes, whereas upswings in economic
growth may generate inflationary episodes. Macroeconomic instability of this kind is usually met with government intervention in the guise of macroeconomic policies intended to flatten the business cycle. Typically these macroeconomic policies seek increase economic activity during recessionary periods and decrease such activity during boom periods.

Thus far we have only considered market failure from the perspective of economic efficiency. If markets failed to yield pareto efficient outcomes, then we have seen that a *prima facie* case for government intervention can be made on efficiency grounds alone. But even if markets do generate efficient outcomes, additional ethical arguments may still be invoked to justify a role for public policy. This of course requires a somewhat broader definition of the meaning of market failure. Wolf's (1989, 19-20) observation that "... markets may fail to produce either economically optimal (efficient) or socially desirable (equitable) outcomes..." serves this purpose.

Three common ethical arguments are often used to support government intervention. Widespread support exists for the contention that the distributive results of efficient markets may not meet socially accepted standards of equity, or accord with a desire to reduce extremes of wealth and poverty. Moreover, practical politics tends to emphasise distributive issues. Wolf (1989, 30) has put the matter thus:

"[M]ost public policy decisions are usually even more concerned with distributional issues (namely, who gets the benefits and who pays the costs) than with efficiency issues (namely, how large are the benefits and costs)" (original emphasis).

Equity based distributional arguments have been used to justify massive redistribution programs characteristic of the modern welfare state. Specific programs range from targeting beneficiaries, like the Aid to Families with Dependent Children program in the United States, to universal coverage, such as the Medicare system in Australia.

A second line of argument is based on the notion that people do not always behave in their own best interests. Unless compelled by law, for instance, some citizens might not send their children to primary school or wear seatbelts. Others might ingest dangerous narcotics or watch violent pornographic movies. Arguments against these kinds of behaviour are based upon the concept of merit goods, and not on distinctions between private and public goods. Merit goods are defined "... as goods the provision of which society (as distinct from the preferences of the individual consumer) wishes to encourage or, in the case of demerit goods, deter" (Musgrave and Musgrave, 1984, 78). Thus government intervention in the form of say, subsidies to the performing arts, or prohibitions against marijuana smoking, can be justified.
A further common ethical argument for public policy intrusion into economically efficient market outcomes is based on the idea of equal economic opportunity. It is sometimes claimed markets resort to ethnic, gender or racial stereotypes as a filtering device in labour markets, and that these biases are reflected in employment patterns. Exponents of these arguments call for government intervention in labour markets in the form of equal opportunity programs and affirmative action laws to improve the job prospects for minority groups.

These arguments for public policy intervention in market economies, sometimes termed the "public interest" school of thought, dominated policymaking in the postwar era until the late nineteen sixties and early seventies, and spawned extensive state involvement in economic activity, particularly through the direct participation of government agencies in production and the widespread regulation of private economic activity. The influence of this line of thought on modern western economic history was enormous and gave rise to a vast public sector in advanced economies. Not only was government activity in public utilities like electricity and water drastically expanded, but the state also sometimes participated directly in other sectors, such as banking and insurance. Moreover, under the additional influence of various ethical theories concerning "social justice" and "desirable" distributions of income and wealth in society, government regulation of private economic activity became extensive, especially in the sphere of labour regulation. The net result has been the growth of the "welfare state", with public policies now affecting virtually all areas of social life.

THE EFFECTS OF GOVERNMENT INTERVENTION

With the publication of Francis Bator's classic paper in the Quarterly Journal of Economics in 1958 the core theory of market failure had been fully articulated and many of its implications for government intervention explored. The acceptance of the market failure paradigm into mainstream economics greatly increased its impact in debates on appropriate public policy, and inevitably provided significant backing for arguments in favour of more government involvement in modern advanced market economies. Without wishing to exaggerate the effects of the theory of market failure on public policymaking, minimise the influence of many other determinants of government behaviour, or gloss over the difficulties encountered in intertemporal and international comparisons of government activity, the following table provides at least some idea of the growth of government expenditure in Australia, the United Kingdom and the United States over the period 1970 to 1987:
### Table 1. General Government Outlays as Percentage of GDP 1970-1987

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL OUTLAYS</strong></td>
<td>25.5</td>
<td>36.4</td>
<td>39.3</td>
<td>45.5</td>
<td>32.3</td>
<td>36.7</td>
</tr>
<tr>
<td><strong>THE TRADITIONAL DOMAIN</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public goods</strong></td>
<td>6.6</td>
<td>6.7</td>
<td>8.9</td>
<td>8.9</td>
<td>11.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Defence</td>
<td>3.1</td>
<td>2.3</td>
<td>4.8</td>
<td>4.9</td>
<td>7.5</td>
<td>6.6</td>
</tr>
<tr>
<td>General public services</td>
<td>3.5</td>
<td>4.4</td>
<td>4.1</td>
<td>4.0</td>
<td>3.6</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>THE WELFARE STATE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merit goods</td>
<td>8.3</td>
<td>12.1</td>
<td>12.8</td>
<td>12.1</td>
<td>8.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Education</td>
<td>4.2</td>
<td>5.2</td>
<td>5.3</td>
<td>5.1</td>
<td>5.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Health</td>
<td>3.2</td>
<td>5.3</td>
<td>4.0</td>
<td>5.1</td>
<td>2.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Housing and other</td>
<td>0.9</td>
<td>1.6</td>
<td>3.5</td>
<td>1.9</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Income maintenance</strong></td>
<td>3.8</td>
<td>7.3</td>
<td>7.3</td>
<td>13.2</td>
<td>6.3</td>
<td>7.9</td>
</tr>
<tr>
<td>Pensions</td>
<td>3.1</td>
<td>4.5</td>
<td>5.2</td>
<td>6.8</td>
<td>5.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Sickness</td>
<td>0.1</td>
<td>0.2</td>
<td>0.9</td>
<td>0.3</td>
<td>0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Family allowances</td>
<td>0.6</td>
<td>1.0</td>
<td>0.7</td>
<td>1.8</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Unemployment</td>
<td>0.0</td>
<td>1.0</td>
<td>0.5</td>
<td>1.8</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
<td>0.5</td>
<td>0.0</td>
<td>2.5</td>
<td>0.0</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>THE MIXED ECONOMY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic services</td>
<td>4.6</td>
<td>5.1</td>
<td>5.2</td>
<td>4.3</td>
<td>3.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Capital transactions</td>
<td>2.4</td>
<td>1.1</td>
<td>2.8</td>
<td>1.0</td>
<td>1.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Subsidies</td>
<td>0.9</td>
<td>1.2</td>
<td>1.1</td>
<td>1.3</td>
<td>0.4</td>
<td>0.7</td>
</tr>
<tr>
<td>Other</td>
<td>1.3</td>
<td>2.8</td>
<td>1.3</td>
<td>2.0</td>
<td>2.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Public debt interest</td>
<td>2.5</td>
<td>4.0</td>
<td>4.0</td>
<td>4.5</td>
<td>2.3</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>BALANCING ITEM</strong></td>
<td>-0.3</td>
<td>1.2</td>
<td>1.1</td>
<td>2.6</td>
<td>0.0</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>NET LENDING</strong></td>
<td>2.2</td>
<td>0.5</td>
<td>2.5</td>
<td>-2.8</td>
<td>-0.6</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

**Notes:**

- a Totals may not add owing to rounding.
- b The 'Balancing Item' is required owing to inconsistencies in the data coverage of other categories.
- n.a. Not available.

**Source:** Adapted from Saunders (1993, p.30, Table 4.2).

A perusal of Table 1 indicates, with some exceptions, a general pattern of greater government involvement in all three countries. Of course, since Table 1 provides
information only on direct government expenditure, and excludes other forms of
government activity such as regulation, it drastically understates the real extent of
government intervention. Nevertheless Table 1 is an unmistakable illustration of the
massive increase in government activity in recent times.

SCEPTICISM REGARDING GOVERNMENT INTERVENTION

The public interest approach rests upon a number of heroic assumptions. Firstly, it
presumes that policymakers can accurately determine the extent of market failure.
Secondly, it presupposes that governments possess the ability to intervene efficiently.
And thirdly, it accepts that policymakers frame public policy in an altruistic manner.

By the mid-1960's various economists, policy analysts, political scientists and others
began to question the public interest approach, and its underlying theory of market
failure. In essence, three major areas of criticism emerged. Firstly, the assumption of
the public interest school that the state could somehow accurately assess the extent of
welfare losses attendant upon market failure, and design and implement appropriate
counter policy measures, was subjected to scathing attack. Hayek (1973, 14) in Law,
Legislation and Liberty, for instance, denounced these presumptions as a "synoptic
delusion" or "... the fiction that all the relevant facts are known to some one mind, and
that is possible to construct form this knowledge the particulars of a desirable social
order". In general, it is argued that given the present limited understanding of economic
processes, it is highly unlikely that the authorities can possess sufficient knowledge of
welfare losses in existing markets to intervene rationally. Secondly, some critics
questioned the ability of governments to intervene effectively in the public interest, and
have identified a number of factors which inhibit the capacity of the state to be fully
and efficiently responsive to the citizenry. And thirdly, commentators rejected the
altruistic behaviour underlying the public interest approach in favour of a self-interested
model of human behaviour along the lines of the homo economicus postulate of
economic theory. Anthony Downs (1957, 136) put the argument thus:

"The complexities of this problem have diverted attention from the second difficulty
raised by the view that government's function is to maximize social welfare. Even if
social welfare could be defined and methods of maximizing it could be agreed upon,
what reason is there to believe that the men who run the government would be motivated
to maximize it?"

This paradigm shift in perceptions on the nature of state intervention has had dramatic
implications regarding both the desirability and efficacy of microeconomic policy. The
earlier traditional view that the existence of market failure necessitated policy
intervention aimed at creating allocative efficiency, and consequently the actions of policymakers may be explained as a benevolent attempt at generating the optimal conditions required for the maximisation of social welfare, no longer enjoyed a consensus amongst policy analysts. The new, more sceptical, view emphasises the problems associated with government intervention and the self-interested motivation behind such intervention. The perceived inability of public policy to achieve socially optimal outcomes was given the generic name of government failure, and the costs associated with government failure were set against the purported benefits of intervention designed to ameliorate market failure.

These critiques of the public interest approach to policymaking crystallised into a broad body of thought, loosely termed the "private interest" approach, which adopted a much less optimistic view of the abilities of government to intervene rationally to alleviate market failures and emphasised the likelihood of government failure. It is possible to identify at least three separate lines of inquiry which fall under the general private interest rubric. Firstly, there is the "economic theory of regulation", developed by Stigler (1971), Peltzman (1976) and Posner (1974), which sees government regulation of market activity as a commodity supplied by politicians in response to constituent demand, and attempts to explain the subsequent pattern of intervention in terms of interest groups. One variant of the approach, sometimes termed the "capture" theory of regulation, holds that industries subject to public regulation attempt to manipulate the regulatory process in their favour, and treat the costs associated with this behaviour as simple business investment outlays. A more recent version of the economic theory of regulation views regulations as commodities brokered through political markets in response to offers and counter-offers by those who stand to gain or lose from specific regulations.

Secondly, public choice theory applied the postulate of homo economicus to political processes underlying policy formulation and implementation, and developed a critique of government intervention. According to public choice theorists government failure has three main forms. Firstly, allocative inefficiency may arise from the bias towards the excess provision of public goods apparently characteristic of distributive politics in representative democracies, sometimes termed constitutional failure or legislative failure. Politicians, it is argued, pursue self-interested strategies designed to maximise their chances of re-election rather than policies aimed at improving the well-being of society at large. Secondly, even if socially beneficial policies are enacted, bureaucratic failure ensures that these policies will not be efficiently implemented. Thus, even if an optimal level of public service provision could be attained, x-efficiency would still arise since agents appointed to implement public projects are unlikely to have sufficient
incentives to minimise costs. Moreover, state bureaucracies develop goals incongruous with the objectives of intervention, like budget maximisation, which may also result in bureaucratic failure. And finally, state intervention almost invariably creates wealth transfers which provide individuals and groups with strong incentives to engage in rent-seeking activities which generate social wast rather than social surplus.

A third approach to the question of government failure has sought to develop overtly normative frameworks within which actual public policy intervention can be evaluated. This genre of theory thus seeks to construct an explicit conceptual analogue to the existing market failure paradigm. At present it is possible to identify three economic theories in this category.

In a number of innovative contributions Wolf (1979a; 1979b; 1983; 1987; 1989) sought to "... redress the asymmetry in the standard economic treatment of the shortcomings to markets and governments by developing a theory of 'nonmarket' - that is, government failure - so that comparison between markets and governments can be made more systematically, and the choice between the two arrived at more intelligently" (Wolf, 1987, 43). Wolf's theory of government failure seeks to emulate the methodology adhered to in the conventional market failure paradigm by attributing government failure to the nature of underlying "demand" and "supply" conditions. The result is a fourfold taxonomy of nonmarket failure which specifies "internalities and private goals", "redundant and rising costs", "derived externalities", and "distributional inequity" as generic forms of government failure (Wolf, 1989). The criteria used to assess the incidence and extent of government failure follow those employed in the theory of market failure. Thus, in addition to the explicit inclusion of equity Wolf (1989, 124) uses allocative efficiency and the "... three principal ingredients of nonpricing efficiencies; dynamic (or Schumpeterian) efficiency; technological (or 'best-practice') efficiency; and x-efficiency".

Despite recognising Wolf theory as a conceptual breakthrough, Le Grand (1991, 424) attempted "... to construct an alternative formulation of the theory of government failure that is, I hope, clearer, analytically more precise, and more comprehensive". In essence, Le Grand's model of government failure amounts to the application of two measures of economic efficiency and an equity criterion to a postulated tripartite classification of government intervention in a market economy in the form of provision, taxation or subsidy, and regulation. The extent to which these kinds of state action fail to generate allocative efficiency, x-efficiency, and egalitarianism provides an indication of the degree of government failure.
Vining and Weimer (1991, 1) "... seek to provide a useful framework for understanding the efficiency consequences of alternative patterns of government supply by developing a normative perspective on when the government should produce a good or service itself and a positive perspective on government supply in general". The theory itself draws extensively on new institutional economics, and particularly the theory of contestable markets. In the area of government production, Vining and Weimer (1991) argue that it is possible to identify two additional elements of contestability. Firstly, they postulate the existence of contestability of supply, which refers to actual or potential competition faced by a public agency in the market for its output. Secondly, they advance the notion of contestability of ownership, which points to "... the credibility of the threat of transfer of ownership of the organisation" (Vining and Weimer, 1991, 6). Vining and Weimer thus develop two new criteria which can supplement existing normative standards for evaluating the performance of government agencies. Using this analytical framework, Vining and Weimer (1991, 15) identify four "... generic problems inherent in government production". These are "limited competition (natural monopoly)", "agency problems (information asymmetry)", "organisational public goods", and the "use of non-marketed resources (externalities)".

It is thus evident that these private interest theories of government intervention have substantially weakened the economic case for extensive state involvement in advanced market economies. Although it may not be wholly accurate to describe the theoretical wheel as having turned a full circle, it is certainly true that recent thought on the appropriate degree of government intervention is now much closer to Adam Smith's original arguments on the invisible hand. In contrast to market failure, which creates a prima facie case for government intervention, the phenomenon of government failure provides an a priori presumption against policy intervention. Indeed, many exponents of the pervasiveness of government failure in modern economies argue suboptimal outcomes often attributed to market failure upon careful scrutiny turn out to be instances of government failure. In sum then, the modern view holds that before policy intervention occurs in response to clearcut cases of market failure, the anticipated benefits of such intervention must be weighed against the possible costs accruing from government failure. Moreover, if policy intervention does proceed then, according to this view, policymakers should attempt to design policies which augment rather than impede market forces, and provide incentives to all participants, including public agencies, congruent with the objectives of the policy. Put differently, preference should be given to indirect measures of enhancing market performance, like taxes and subsidies, rather direct measures which hinder market operation, such as price and quantity controls, and the reward accruing to the implementing agency should be calibrated to the success of the policy.
Does this, however, represent too narrow a conception of individual motivation and the role of the government in addressing social and economic problems? Are there not significant non-material incentives to participate in public actions to overcome these problems? Can the government not call on its employees to commit themselves to these public actions in the same way that individuals commit themselves to the causes of groups such as missionary organisations, "Greenpeace", the "Red Cross", "Amnesty International" and the multiplicity of groups promoting the rights of women and minorities? And, even if government employees cannot be expected to demonstrate this level of "zeal" for the "cause", can they not be trusted to practice the virtues which curb the unbridled pursuit of private interest in the public domain? Is there no room in economic discourse for the "dedicated civil servant" as distinguished from the self-interested, "empire-building bureaucrat"? Must the economic analysis of government resolutely dismiss the traditions of public service and civic virtue which, in many countries, have been cultivated to counter the type of perverse incentives emphasised by the proponents of government failure?

These questions are being posed in contemporary political philosophy, particularly by communitarian writers such as MacIntyre (1981, 1988), Sandel (1982, 1984) and Taylor (1985, 1989). The concept of human motivation articulated by these writers is particularly interesting since it seems to break the mould of the altruism self-interest dichotomy presumed in the private interest approach to public policy. This concept needs to be examined before the question of whether it can be accommodated within a recognizably economic framework can be addressed.

**COMMUNITARIAN CONCEPTS OF HUMAN AGENCY**

Contemporary communitarians seem to share a common emphasis on the way in which human action is situated within the historical contexts of (i) particular communities bound together by particular traditions, and (ii) the lives of particular persons whose identity is, at least partly, "constituted" or "encumbered" (Sandel, 1982, 1984) by their attachment to these communities. MacIntyre proposes that these contexts can provide persons with the opportunity to realise "internal goods" through actions which are situated within them. A government employee, for example, may realise that his work is situated within the tradition of public service borne by the agency he works for. This situation provides him with the opportunity to pursue excellence in public service by subjecting his work to the standards set by past and present practitioners in the hope that he can make a contribution toward advancing these standards and sustaining the vitality of the tradition which bears them.
From this perspective tradition is not conceived in Weberian terms as a fixed and inflexible manner of doing things. Rather MacIntyre conceives a "living" tradition to be "an historically extended, socially embodied argument, and an argument precisely in part about the goods which constitute that tradition" (1981, 222). Similarly, Oakeshottte (1977) has argued that a tradition of behaviour is "a flow of sympathy" which from time to time needs to be revived, abridged and developed in response to the demands of each new generation. At any time a tradition will have both coherent and incoherent aspects. It will both compose a pattern and intimate a sympathy for what does not fully appear. The pursuit of excellence in government employment may therefore involve not only conformity to established standards, but also the pursuit of that which is intimated in a particular tradition of public service.

The individuals engaged in this pursuit will, however, not just be seeking to advance these standards of practice. They will also be attempting to change the history of the community in which they provide their services in a worthwhile direction. To do this they may have to form co-operative relationships with voluntary organisations and community groups who are engaged on the same quest. Their quest for excellence in public service may lead them to pursue what is intimated not only in the tradition of the agency they work for, but also in the tradition of the community they are seeking to serve.

Their engagement in this quest can be viewed as being situated within the context of each person's quest for the good life. According to MacIntyre (1981, 219), "the good life for man is the life spent seeking for the good life for man". It is this encompassing quest which is constitutive of the self's "narrative unity", a unity which resides in the "unity of a narrative which links birth to life to death as narrative beginning to middle to end" (p. 205). By pursuing excellence in public service a government employee may achieve a greater understanding of how this quest can be a partial expression of what it means for him or her to pursue the good life.

The internal goods which can be realised through this pursuit will however be contingent on the practice of particular virtues. According to MacIntyre, virtues are cultivated human qualities, the possession and exercise of which, is necessary to enable persons to achieve particular internal goods and sustain relationships with people, past and present, who have committed themselves to pursue excellence in the same tradition. The internal goods which can be derived from exercising virtues arise from an expanded capacity to pursue excellence in, and understand the tradition from which this quest emerges and the life which is constituted, in part, by commitments to it. These internal goods differ from external goods such as wealth, status and prestige in that (i) they can only be derived by persons who commit themselves to the quest
concerned - free-riding on the commitments of others will exclude a person from them; (ii) they are not dependent on the success of a particular quest - if a quest fails, the people who have committed themselves to it may still have increased their understanding of the nature of a tradition and a way of pursuing the good life; and (iii) although the acquisition of these internal goods may be the outcome of competition to excel it is a characteristic of them that their achievement is a good for the whole community bound together by hope in a particular living tradition.

Taylor's (1985, 1989) concept of human agency both parallels and complements that presented by MacIntyre. According to Taylor people on a quest for the good life should be viewed from a "significance perspective" (1985, 114) as being in a world of meanings that they imperfectly understand with the task of interpreting it better in order to understand more clearly who they are and what they ought to be seeking. From this perspective government agencies can be viewed as being staffed by people who can be characterised according to the degree to which they are "engaged" in a quest for excellence in public service. On the one hand, engaged staff members will not just be interested in learning and undertaking the tasks necessary to fulfil their contractual obligations as employees. They will also be moved by their sense of the significance of their quest for excellence, and will seek to articulate and express this sense of significance to those interlocutors who may question it. They will also ascribe a personal significance to their commitment to the agency and its quest and will interpret this commitment as being a partial expression of what the good life for them should contain. They will be able to "strongly evaluate" actions taken by themselves and their colleagues according to whether or not they should belong to the life of a "dedicated public servant". Quite clearly they will be able to derive internal as well as external goods from their engagement in the agency's quest. On the other hand, disengaged staff members can not be characterised as people who ascribe no worth or significance to any project or relationship. They are simply not moved by the particular significance of the agency's activities. They can only derive external goods from their participation in these activities and can therefore be represented as the type of self-interested bureaucrat who has attracted the attention of theorists of government failure.

For agents to be engaged in the manner described by communitarian writers they must have a capacity for hope which they activate by committing themselves to particular projects and relationships. A dedicated civil servant will, for example, commit himself to a quest for excellence in a public agency as an expression of hope in the potential of such "constitutive" commitments to change the history of the agency, the community it is serving, and the lives of the people, taking them in a worthwhile direction.
Hope falls into the category of what Taylor calls "subject-referring emotions" (1985, 59). It can only be experienced if a certain "import" or significance is ascribed to the situations which give rise to it. This ascription of import cannot take place without reference to the subject and his or her experience. It incorporates a sense of what is important, what matters in the life of the subject. It constitutes more than a subjective reaction to an objective situation. As Taylor puts it, "to ascribe an import is to make a judgment about the way things are which cannot be reduced to the way we feel about them" (p.54). For the purposes of this paper hope can be defined as a subject-referring emotion evoked by an image of a future transformation which the subject of this emotion judges to be both worthwhile and possible. The question of how motivation through hope can be brought within the reach of economic analysis must now be addressed.

**A BECKERIAN APPROACH TO MODELLING ENGAGEMENT IN PUBLIC ACTION**

A politically fruitful approach to modelling the function of hope in human action seems to be intimated in the work of Gary Becker (1976, 1981). Becker pioneered a "new home economics" which allows economists to analyse "non-market" behaviours which have traditionally been considered to be beyond their reach. The standard assumption in Beckerian models is that agents use inputs of purchased goods, time and human capital to "produce" satisfaction from "commodities" which constitute the actual arguments in their utility functions. These commodities can be as abstract as recreational enjoyment and health. The satisfaction government employees and other individuals derive from engaging in a quest for excellence in public service could surely be treated as another such commodity. This satisfaction is derived through a "fusion of striving and attaining" (Hirschman, 1985) and constitutes a source of "in-process benefits" from which free-riders are excluded (Buchanan, 1979; Hirschman, 1982).

It is clear that individuals use inputs of time and goods to produce this commodity. But what is the nature of the human capital they combine with these other inputs? In standard Beckerian models human capital is conceived of as the knowledge individuals acquire through general education and learning on-the-job. We would suggest that the hope individuals place in a quest for excellence in public service can be viewed as an important part of the human capital they use to produce satisfaction from this commodity. There are a number of reasons why hope can be treated as a form of human capital.
Firstly, it is possible to distinguish between general and specific forms of hope in the
same way that it is possible to distinguish between general and specific forms of human
capital. A person's general capacity for hope will enable him or her to sustain the quest
for the good life despite disappointments experienced with particular projects and
relationships. To lose this capacity is to despair of life having any meaning, of there
being anything worth doing or becoming. This general capacity for hope enables
people to place their hope in specific projects or relationships without necessarily
attaching an ultimacy to these projects or relationships. A person can then become
disillusioned with them without losing hope in the possibility of seeking the good life
through other projects or relationships. If this general capacity for hope can be treated
as a form of general human capital, then it should be possible to model within a
Beckerian framework the behavior of the type of agent (who has attracted the attention
of communitarian writers) who is on a quest to discover the kind of life it is worthwhile
to live. Like general human capital this capacity will to some degree be innate but can
also to a significant degree be developed through social interaction and social
influence.\(^5\)

The specific hope which individuals have in particular projects or relationships is like
the specific form of human capital which is formed "on-the-job" through practice. This
is the type of hope which government employees invest when they engage in a quest for
excellence in public service. Although hope is essentially an emotion - of the "subject-
referring" type described by Taylor - it is an emotion based on a form of knowledge.
This knowledge is the person's image of what his or her own life, and the community in
which this life is situated, could become through participation in the quest. Both this
knowledge and the emotions it evokes enable a person to derive satisfaction from
"savoufing in advance" the future transformation on which it is focused.

Like any form of capital, the specific hope which is invested in a quest for excellence in
public service can be subject to processes of accumulation and depreciation. At the
time individuals engage on this quest, their initial investment of hope will be matched
by an allowance they make for disappointment over the course of the quest. This
allowance will be revised upward or downward as their hope is strengthened or
weakened by subsequent experiences and their interpretation of them. On the one hand,
negative experiences which are interpreted as disappointments may accumulate in a
way which undermines the initial hope placed in the quest. On the other hand, this
hope may be strengthened by positive experiences which are interpreted so as to give
participants more solid grounds for their commitment, or a clearer understanding of
what they have placed their hope in.
In terms of a Beckerian model changes in the stock of human capital will change the "shadow prices" of the inputs which are used to produce satisfaction from a commodity. Where the accumulation of disappointment weakens the hope placed in a quest, these shadow prices will rise and induce the type of substitution effects which are very familiar to economists. This suggests that there will occur smooth and continuous adjustments of the inputs supplied to produce satisfaction from participation in the quest in relation to those supplied to produce other commodities (including participation in other quests). This ignores the common situation where individuals cannot make these marginal adjustments since they allow their supply of inputs to a quest to be subject to group norms of commitment.

To take account of this situation, the standard Beckerian model needs to be modified to recognise that individuals typically express their hope in a quest by subjecting their supply of time, effort and wealth to the norms of commitment of the group which is engaged by it. This is how they commit themselves - in the constitutive way emphasised by communitarians - and not just specific inputs - to the quest. They stake their reputation in this group on their submission to its norms for commitment. They do this to show other members of the group (and any other interlocutor) how much the quest means to them.

In committing themselves to a quest in this way individuals do, however, expose themselves to a number of sources of disappointment. Firstly, they will be exposed to disappointments associated with the quest itself. Due to their "poverty of imagination" (Hirschman, 1982) individuals will not imagine all the obstacles to the realisation of the quest. Surprising failures and setbacks may therefore be interpreted as disappointments which weaken their hope in it. Secondly, they may experience disappointments associated with belonging to a particular group. These disappointments typically arise when group pressures to conform to its norms lead to "preference falsification" (Kuran, 1990) among its members as they over - or - under commit themselves in relation to the degree that they seek to express their hope in the quest. Thirdly, to the extent that individuals internalise group norms and form "second order metapreferences" (Hirschman, 1982) to keep them, they will experience guilt or shame when they fail to keep the commitments which are the subject of these norms. These disappointments with oneself can combine and interact with the other sources of disappointment to weaken hope in the quest. For example, obstacles experienced over the course of the quest may necessitate the stepping-up of group norms for commitment. This may, in turn, increase both the degree of preference falsification and guilt among members as they find it increasingly difficult to satisfy the demands of the group.
The accumulation of all these sources of disappointment may, however, take time to affect the observed supply of inputs by individual group members. Eventually, however, disappointments may accumulate beyond the threshold at which individuals lose hope in the quest and disengage from it. There are a number of forms disengagement can take. The most easily observed form is where disappointed individuals withdraw completely from the group and its activities. This may not, however, occur in the case of an employee of a public agency who, despite losing hope in the quest for excellence in public service, refrain from quitting their jobs since they continue to provide them with a sufficient source of "external goods" (MacIntyre, 1981). They may be expected to pursue these goods in the self-interested manner familiar to students of government failure. Hirschman (1982) has even gone as far as to suggest corruption may be the consequence of this form of disengagement. He writes

"Take a person who has been heavily involved in public affairs and, as a result, holds some public office, but has now become disappointed for one reason or another: one way in which he can respond is . . . by taking a bribe. What has been called the 'unblushing confusion of the business of government with the promotion of private fortune' often occurs after the first flush of enthusiasm for public service has given way to a more jaundiced assessment of the prospects for improvements in the public happiness. It is at such moments that opportunities for personal enrichment at public expense on the part of those who have successfully taken a particularly strong interest in public affairs are apt to be perceived and seized." (p.124)

The quality of leadership in public agencies can be evaluated not only in terms of its capacity to engage a group on a quest for excellence in public service but also according to its ability to counter the accumulation of disappointment which can lead to such forms of disengagement. The salient features of a Beckerian theory of leadership must now be considered.

**LEADERSHIP AND PUBLIC POLICY**

A theory of leadership would seem to be the missing ingredient in public economics. As Aaron (1994) suggests, even if governments can intervene to ensure that material incentives are congruent with their policy objectives, they might still need to provide leadership to mobilise a collective commitment to overcome the "interlocking web of social pathologies" which exist in certain communities. An economic theory of leadership would not only make a contribution to public economics. It would also make a general contribution to economic theory which has traditionally neglected this phenomenon. In this respect economics is out of step with other social sciences such
as politics, anthropology, psychology, sociology and history within which a considerable body of literature on leadership has developed. Moreover, insights from all these traditions have been integrated into studies of management and organisational behavior which have been of both an academic and popular nature.

Most of these studies attempt some definition and typology of leadership. This has given rise to a wide range of definitions which seem to be converging toward the concept that "leadership is a social influence process in which a person steers members of a group toward a goal" (Bryman, 1986) or, in the case of organisational leadership, "the influential increment over and above mechanical compliance with the routine directions of the organisation" (Katz and Kahn, 1966).

The capacity to influence the behavior of the members of a group represents a distinct form of power. While leaders may be in a position to exercise "reward power" by using material rewards to induce subordinates to perform the tasks they set them; or "coercive power" by administering a set of material penalties for non-compliance with their directions, they cannot be said to be exercising leadership if they choose to exercise these forms of power. Less obviously, the power to influence followers does not essentially arise from the social division of knowledge. Leader-follower relationships can be distinguished from those arising from the superior expertise or knowledge of one party such as teacher-pupil, adviser-client or doctor-patient relationships. Leaders may be in a position to gain access to and process more information than their followers but, in exercising leadership, they are not simply attempting to change their behavior by supplying them with information they do not have. We would suggest that leadership more essentially involves drawing the attention of followers toward, and making more explicit, the significance of a form of knowledge they already possess and motivating them to express this increased sense of significance through greater commitment to the collective activities of the group which is subject to this leadership.

What then is leadership directed toward? What capacity of followers do leaders try to influence? It is crucial to address these questions to establish whether leadership is amenable to conventional economic analysis. This is because the traditional reluctance of economists to examine this phenomenon may have been based on the perception that, in seeking to influence followers, leaders are trying to change their preferences. The study of leadership would therefore seem to be out of bounds to the majority of economists who subscribe to the convention that economic analysis should take the preferences of individuals as given and should not look inside the "black box" within which they are formed and transformed. The position we will take is that leaders attempt to influence the hopes and not the preferences of followers. Leader-follower relationships can then be explained in terms of the Beckerian framework, discussed in
the previous section, within which individuals combine hope with other inputs to produce satisfaction from participating in public action and express this hope by submitting to a group's norms of commitment for so long as they are engaged on this group's quest.

While every member of a group engaged on a quest may make some contribution to the process of interpreting its significance, leader-follower relationships will emerge in those groups who look to one person to act as a "final respondent", to have the "final word" in articulating the current group interpretation of their quest's significance and timeliness and of the norms which govern their expression of hope in this quest. Leaders can therefore be viewed as the key "hermeneutical" agents in such groups. Through their interpretation of the quest and its significance, leaders will seek to facilitate the convergence of the hopes of their followers into a "vision" which they can share in common. Although this vision does not have to be closed to further interpretation, it does represent a more standardised image of the future transformation which the leader and followers are striving to realise. Leaders can thus be conceived as directing the interpretative process toward provisional resolution in the form of an articulated vision for the group. If leaders succeed in causing the hopes of their followers to converge on their vision of the quest then, in terms of a Beckerian model, they will influence the satisfaction followers produce from public action even if the ranking of this commodity in their utility functions remains unchanged. Leaders can influence followers by influencing their levels of specific hope without necessarily changing their preferences between commodities.

In the case of a public agency there will be a number of aspects to the leader's vision. Firstly, it will contain an image of what the community could become if a critical mass of people engage in a quest to overcome obstacles to the realisation of the leader's vision. The quality of leadership exercised by the executives of public agencies may therefore be evaluated not only according to the proportion of their own staff who are engaged by such quests, but also by whether they are able to engage and co-opt independent sources of leadership in their client communities.

Secondly, the leader's vision may also contain an image of what the quality of agency practice and the lives of public servants could become if they submit to norms of commitment articulated by the leader. Although these norms may be based on established traditions and standards of excellence, the leader can influence these norms by articulating a vision of the type of commitment necessary for a "dedicated public servant" to meet the "demands of the present hour". As the Beckerian theory presented in the last section indicated, these norms can be a source of disappointments from both preference falsification and guilt. Leaders will have to take this account in articulating
their visions. They may, for example, reduce the scope for disappointment due to preference falsification by adopting a democratic style of leadership, consulting widely to discern the images of a dedicated public servant held by most of their followers and formulating a vision which has as little dissonance with these images as is possible. The scope for disappointment due to guilt could also be reduced if compliance with the norms derived from the leader's vision is attainable by most followers. This could occur where the leader's vision of a dedicated public servant is someone who learns from his or her failures or mistakes, who sustains commitment in the face of disappointments about the quest.

In general, it would seem that if leaders are to mobilise a group of followers on a quest to change the histories of communities, practices and the lives of the followers concerned, then they must engage with traditions of behavior formed over the previous course of such histories. This does not mean that leaders must necessarily be in the antagonistic relationship with the "forces of tradition" which is a feature of the Weberian concept of a "charismatic leadership"8. Indeed, it is possible to distinguish between leadership which is "situated" or "unsituated" in its relation to particular traditions. Situated leadership can be conceived as being directed toward the engagement of followers on quests to preserve the coherence and vitality of "living traditions" (Maclntyre, 1981)9. The following types of leader and quest would fall within this category: (i) "conservative leaders" who engage followers on quests intimated by the incoherent aspects of the tradition with a vision of consolidating it so that it can provide a foundation for future progress; (ii) "reformist leaders" who engage followers on quests intimated by the sterile aspects of the tradition with a vision of amending it so that its future vitality can be revived; and (iii) "transformational leaders" who engage followers on quests precipitated by the sense of crisis which pervades traditions which have become largely sterile and incoherent, with a vision of transforming them as a whole so that they can be passed on to successor leaders in a vital and largely coherent condition10. While transformational leadership is clearly more radical than conservative or reformist leadership, it is still motivated by a vision of historical continuity11 with the transformational leader seeking to restore the capacity of a tradition to generate worthwhile quests in future generations12.

The two objects of the leader's influence are thus the hopes of followers and the group norms which they submit to in expressing these hopes. Even if this view on how leader's influence followers is accepted, questions must still arise as to why followers allow themselves to be influenced. Why do followers look to leaders to formulate the vision which affects their own production of satisfaction from participating in quests? Why do they not take responsibility for formulating their own vision? Furthermore,
why do followers willingly submit to the norms derived from the leader's vision of exemplary followership?

There are a number of reasons why followers may allow themselves to be influenced in these ways by leaders. Firstly, even for those followers who share the same hope of historical and personal transformation as their leaders, there can still be scope for these leaders to influence their follower's images of the future by clarifying them or filling them in or making them more explicit. Followers may accept that the leader's vision is clearer and more complete than their own image of the future, since (i) leaders tend to be selected according to their superior articulative skills and (ii) the central position leaders occupy in the "public space" (Taylor, 1985) of the group enables them to interact with more people and process more information in formulating this vision. Secondly, followers may recognise that by submitting to the leader's interpretation of what behavior conforms to their vision of exemplary followership they may cut themselves off from the possibility of interpreting their future behaviour in a way which understates the extent to which it actually deviates from the group's norms. Where followers recognise that they have a propensity for *ex post* rationalization of their behavior, they may view their leader's interpretation of it as being more trustworthy than their own. Thirdly, where followers recognise that they have a more limited capacity than their leader to influence others, they may view submission to the interpretations of this person as being a way to achieve this influence indirectly. Fourthly, by submitting to a leader a follower may gain the trust of this person to such a degree that the leader entrusts the follower to reproduce his or her leadership. Submission to a leader may thus be viewed as a route to future leadership.

There is generally a close link between commitment and trust. Individuals limit their future freedom of action through commitment so that others can place their trust in them. For person A to place his or her trust in person B, A must expect that B would keep his or her commitment to do X over a particular period of time even if circumstances should unexpectedly change during this time period so that B would benefit from being released from the commitment. Leader-follower relationships are clearly founded on reciprocal relations of trust and commitment. Followers commit themselves to leaders whom they trust to lead them in a worthwhile direction. Leaders can provide this leadership because they trust their followers to sustain this commitment.

The effectiveness of leaders will be related to the level of trust they can place in followers. Effective leaders are able to place their trust in particular persons, their followers, rather than in the systems which can be designed to monitor their performance. It follows that effective leadership can significantly reduce the
transactions costs which are associated with establishing and operating such systems. Such systems tend to formalise what Wolf calls "internalities". These are "the goals that apply within non-market organisations to guide, regulate, and evaluate agency performance and the performance of agency personnel" (Wolf, 1989, 66). For these internal standards to be a source of government failure in the way described by Wolf they must constitute an expression of a "dead tradition". There would be no forum within such a tradition for anyone to question the point and purpose of these standards and the exclusively "inward orientation" of the agency staff who seek to conform to them without entertaining any hope of being able to make a significant difference to the lives of the people they are meant to be serving. There would be an urgent need within such agencies for transformational leadership which can engage a trusted following on a quest to revitalise their traditions with a restored sense of hope in the possibility of pursuing excellence in public service through them. The problems identified by Wolf would seem to be less an inevitable consequence of government intervention than a manifestation of leadership failure.

There would seem to be three levels of trust through which followers can ascend in their relationship with their leader. At the lowest level, followers can be trusted to monitor themselves, since their hope in the quest conforms with the leader's vision and the commitment through which they seek to express this hope conforms with group norms. At the intermediate level, followers can be trusted to bring their peers into line with the leader's vision. They can influence the convergence of the specific hopes of their peers towards conformity with this vision and communicate disappointment to peers who deviate from the group norms for commitment. At the highest level, followers can be trusted to reproduce the leader's leadership. They can be trusted to engage their own followers on quests which have only been intimated in the leader's vision. They can be trusted to preserve the vitality of the tradition of leadership "bequeathed" to them by their leader.

Through its capacity to reproduce itself, effective leadership can have an important role to play in the execution of public policy. A government's chief executive - its Prime Minister or President - would have to come to terms with the "vision thing" - as George Bush put it. This person would have to place the government's policies within the "frame" of a vision of "the good society". A vision of a "Welfare Society" as opposed to a "Welfare State" would be one such vision. It could engage different levels of leadership in a quest to make society more inclusive by seeking to provide for the welfare needs of its members. The executives of the public agencies responsible for implementing social policies would need to reproduce their chief's leadership so that their own staff can be engaged by this vision and take the opportunities to derive
"internal goods" by committing themselves to its realisation. In addition, independent sources of leadership in client communities could be engaged in joining with government agencies in pursuit of this vision. A "pluralist" approach to social policy could thereby emerge in which the government allows an expanded role for voluntary organizations in the provision of social services. The government's commitment to this approach could be further expressed if it increased the level and availability, and reduced the conditions attached to grants made to these organizations. This "pluralistic" approach to social policy has been promoted by writers who have argued that a flourishing voluntary sector with its emphasis on local decision making, innovation and self-help could constructively intervene between large government and the individual (Gladstone, 1982; Johnson, 1982). In addition, voluntary organizations can provide services in a cost effective way through their ability to mobilise volunteer support.

A pluralist approach to social policy exemplifies the "politics of the common good" advocated by communitarians. In this advocacy communitarians have been joined against Kantian liberal advocates of a "politics of rights". The nature of the problems Kantian liberals have with a pluralist approach to social policy, in particular, and a role for leadership in the execution of public policy, in general, and the response to these problems which is intimated in the theory of leadership presented in this paper must now be considered by way of conclusion to it.

CONCLUSION

From a liberal perspective based on deontological, Kantian foundations, the human capacity which can command universal respect is the capacity of individuals to choose and pursue the concept of the good they seek to live by. As morally autonomous agents they have the right and responsibility to "lead their lives from the inside" (Kymlicka, 1989), to have the "final word" on the principles which shape the direction of these lives. While there is considerable debate within this school of liberalism about which rights should be subject to government protection and promotion, Kantian liberals seem to found common ground in the proposition that the basic function of government is to establish, sustain and develop a neutral framework of rights within which the autonomy of individuals can be preserved and nurtured.

A scepticism about the possibility of a type of leadership which respects the moral autonomy of followers would seem to be unavoidable from this Kantian liberal perspective. This is because no matter how "democratic", "participative", "group developing", "supportive" and "considerate" the style of leadership being exercised,
the leader-follower relationship inevitably requires that followers surrender to their leaders a degree of moral autonomy to enable them to have the "final word" on the vision of the group and the norms through which they are to express their commitment to realising this vision.

Liberal scepticism about the morality of leadership may also make them suspicious of public policies which involve the state co-opting independent sources of leadership in society. A pluralist approach to social policy implies an acceptance that, to the extent that they are allowed to function as independent sources of leadership, voluntary organizations may tend to direct their services toward groups which their leaders deem to be especially deserving. Moreover, they can make the provision of services contingent on their clients "taking steps to improve themselves" according to the particular conception of the good life held by these leaders. For example, the provision of food and shelter may be made contingent on a commitment to temperance. The voluntary provision of social services seems to be unavoidably "messy" with gaps, duplications and unevenness both across geographic areas and categories of need. Once liberals have established that citizens have a "right" to a particular social service then they would favour statutory over voluntary provision to ensure that principles of universality and equality are met in securing general access to this "entitlement".

The liberal view that the right is prior to the good can only be challenged if the good life can be conceived in such a way that the failure of a person to choose to live this particular version of the good life would cause them to lose the basic respect that is their due by virtue of being a human agent. Implicit in the theory of leadership presented in this paper is the communitarian view that the most basic ingredient of the good life, the human capacity which has an even deeper claim on universal respect than the capacity to make autonomous choices, is the capacity to hope. It is this general hope which sustains the quest for the good life. A person who chooses to give up all hope, can command our sympathy or compassion, but does not command our respect. It would not be right to accept and respect this decision. It would be incumbent on all those who are in a position to influence this person to attempt to influence them to reverse this decision, to revive their sense of hope that life is worth living, that there are projects or relationships worth making commitments to, because they can potentially advance the quest for the good life. This would seem to be what leaders do. We would suggest that a leader-follower relationship can only be moral if followers place their specific and not their general hope in the leader and the quest. Such followers still retain their moral autonomy in the weak sense that, although they are submitting to the leadership of another person, they still have the capacity to disengage from this
relationship when they lose hope in the leader's quest and place their specific hope in alternative leaders and quests.

It would, however, be immoral for a leader to expect followers to invest their general sense of hope in their quest. To demand this leaders would have claim an ultimacy for their leadership and quest that it could not bear. The potential for leaders to make such totalitarian demands on their followers would seem to be significantly curtailed where their leadership is situated within and emerges from living traditions. In these cases both leader and followers would have to allow for the possibility that their quest might not be intimated in the tradition or that the time might not be ripe for its pursuit so that the option of future disengagement would not be excluded. Living traditions can also provide the source of the virtues which leaders can appeal to in seeking to influence the commitments of their followers. To the extent that situated leaders foster these virtues they will act as moral agents by improving the moral quality of relationships not only between themselves and their followers, but also among followers, and between followers and other people whose lives may be affected by their quest. If the leader of public agency, for example, can establish, restore, preserve or enhance a tradition of dedicated public service this will counter the tendency to pursue private interest to the neglect of client needs not only in current but also in future members of this agency's staff. In this way moral leadership can provide an education in modal values which can govern human practices and relationships.

In conclusion we would submit that the economics of government should not limit its focus exclusively to the containment of market and government failure. It should also explore the possibility that governments can provide moral leadership to engender the hope and elicit the commitment without which any attempt to overcome deep-rooted and interlocking social problems would seem to be inadequate.
REFERENCES


Maclntyre's list of such virtues includes (i) "an adequate sense of tradition" which, according to Maclntyre "manifests itself in the grasp of those future possibilities which the past has made available to the present"; (ii) "justice" which is reflected in a propensity to "recognize what is due to whom"; (iii) "courage" which involves being prepared to "take whatever self-endangering risks are demanded along the way"; and (iv) "honesty" which is reflected in a willingness to listen and respond carefully to criticism.

Taylor endorses Frankfurt's (1971) distinction between first and second order desires where the latter are derived from a reflective evaluation of what a person wants his desires to express. However, he suggests that second order desires may give rise to both "strong" and "weak" evaluations. Strong evaluations involve discriminating between desires according to an assessment of their worth, while weak evaluations only require that certain desires be overruled because it is more expedient to give others full expression.

From a communitarian perspective, expressive commitments can be characterised as constitutive commitments since the people making them do not just commit their time or wealth - they may also commit themselves to the projects or relationships they are placing their hope in. Such commitments can have a formative effect on the character of the people making them so that their selves come to be "encumbered" or "constituted", at least in part, by these commitments (Sandel, 1982).

Hirschman (1985) argued that since access to these in-process benefits is conditional on participation, they provide a solution to the free-rider problem since "the only way an individual can raise the benefit accruing to him from the collective action is by stepping up his own input, the effort on behalf of the public policy he espouses" (p. 15).

Religion can play an important part in the development of this capacity. The essential function of religion would seem to be to explain the meaning of life in ultimate terms, so that any who believe in the explanation given can be enabled to "make sense" of life, especially of their own lives and particularly of those aspects of their lives which have been a source of disappointment (Kelley, 1972). By providing a transcendent focus for a person's general hope, a religion such as Christianity can protect this sense of hope from erosion by the disappointments, the "trials and tribulations", experienced during life. The nature of "religious human capital" and its effect on religious practice has been examined from a Beckerian perspective by Iannacone (1990).

An important recent exception in this regard is Casson (1991). While we share this writer's understanding of the importance of the quality of leadership in affecting economic performance, the theory developed in this paper differs from Casson's in that it focuses on the way leaders primarily influence followers by appealing to their sense of hope rather than their sense of guilt.

An exhaustive bibliography of this literature has been compiled by Bass and Stogdill (1990).

Weber (1947) conceived charismatic leadership as a revolutionary and creative force, "opposed to all institutional routines, those of tradition and those subject to rational management" (p.52), occurring in times of crisis, opening the way to a new future. In charismatic movements people no longer obey custom or law; instead the followers submit to the imperious demands of a heroic figure, the charismatic leader, whose orders are legitimated not by logic, nor by the leader's place in any ascribed hierarchy, but solely by the personal "power to command" of this charismatic individual. For Weber, these charismatic leaders have an important historical role since they can inspire the creation of movements or organisations which subsequently become traditionally or bureaucratically managed.

The concept of a living tradition does not seem to be ruled out by Stigler and Becker's (1977) treatment of tradition as a form of human capital acquired "from investment of time and other resources in the accumulation of knowledge about the environment, and of skills with which to cope with it" (p.82). These writers suggest that, once the costs of information search are taken into account, it may be efficient for traditions to govern behavior, in the sense of causing it to remain stable in the face of environmental changes. The same considerations would induce the members of a community to react to environmental changes by pursuing responses intimated in their own tradition rather than attempting to construct new ones.
A similar understanding of the quest of a transformational leader is reflected in studies of the role this type of leader can play in the "turnaround" or revitalisation of moribund organisations. Tichy and Devanna (1986), for example, characterise transformational leaders as engaging their organisations in a "three part drama" in which the "first act" centres on the challenges the leader faces when he or she attempts to alert an organisation to its need for revitalisation in response to threats from the environment; the "second act" involves the leader's struggle to focus the attention of a critical mass of followers on a vision of a worthwhile and possible future state for the organisation; while in the "third and final act" the leader seeks to institutionalise the transformation "so that it will survive his or her tenure in a given position".

An alternative typology of leadership classified according to the changes sought and achieved by leaders could include conservative, reformist and revolutionary leadership as proposed by Paige (1977). Communitarians, however, seem to reject the desirability and possibility of such revolutionary leadership. Oakeshotte (1977), for example, argues that "political crisis (even when it seems to be imposed upon a society by changes beyond its control) always appears within a tradition of political activity; and 'salvation' comes from the unimpaired resources of the tradition itself" (p.232). Leadership cannot be strictly revolutionary, from this perspective, since, even in the most deep-seated crisis, it must seek to build on those vestiges of the predecessor tradition which the crisis has left untouched.

Usually the type of transformation envisaged is too comprehensive to be entirely intimated in the traditions these leaders are seeking to transform. To formulate these visions they need to be able to see how their traditions are embedded within, and situated in relation to, other traditions. By establishing a connection between their sterile or incoherent traditions and traditions with a longer history or greater geographical scope, transformational leaders may be able to derive intimations of how their traditions can be made more vital and coherent through assimilating salient aspects of these deeper and broader traditions. At the very least, these leaders may be able to look outside their own tradition in order to draw inspiration from the tradition of transformational leadership itself.

The focal issue in the communitarian-liberal debate has been the liberal proposition that the right is prior to the good since "the self is prior to the ends which are affirmed by it" (Rawls, 1971, p.560). The communitarian view that a strict priority of the right over the good cannot be maintained since the self is partly constituted by its ends has been expressed, inter alia, by MacIntyre (1981), Sandel (1982, 1984) and Taylor (1985, 1989). Together with writers such as Michael Walzer and Michael Oakeshotte these communitarians have understood themselves to be joined against advocates of Kantian or rights-based liberalism such as Rawls, Dworkin, Nozick and Hayek. As Sandel has pointed out, the communitarian-liberal debate cuts across traditional ideological distinctions with rights-based liberalism being espoused both by defenders of certain welfare rights such as Rawls and Dworkin as well as advocates of a minimal State, committed primarily to the protection of property rights, such as Nozick and Hayek. Similarly the communitarian school encompasses the democratic socialist views of Walzer as well as the more traditionally conservative viewpoint expressed by Oakshotte.

In a survey of taxonomies of leadership B.M. Bass and R.M. Stogdill's *Handbook of Leadership* (London: Macmillan, 1990) compares these types with leaders who can be classed as "authoritative", "dominating", "directive", "autocratic" and "persuasive" and suggests that "it is possible to encapsulate many of these typologies into the autocratic versus democratic dichotomy" (p.33).
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