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The burgeoning literature that deals with the political economy of policy reform has been recently surveyed by Rodrik (1996). The point of departure for this survey is the observation that "what is remarkable about current fashions in economic development policy (as applied to both developing and transitional economies) is the extent of convergence that has developed on the broad outlines of what constitutes an appropriate economic strategy" (p.9). This strategy includes the now familiar components of (i) "liberalization" - microeconomic reforms designed to open and free up markets and reduce and rationalize the role of the state in the economy; and (ii) "stabilization" - macroeconomic policies designed to reduce debt and control inflation. Rodrik's claim that the so-called “Washington consensus” (Williamson 1994) on the appropriateness of this strategy now enjoys general acceptance may, of course , be disputed. It does, however, indicate that the focus of the policy reform literature has shifted from an almost exclusive concern with the technical aspects of this strategy to an increasing interest in exploring the reasons for the observed unevenness in its implementation.

These concerns appear to be shared by policymakers within South Africa's Government of National Unity (GNU) whose current attempts to enhance economic growth center on the Growth, Employment and Redistribution (GEAR) policy initiative. This replaced the initial attempt by the GNU to boost growth through the Reconstruction and Development Program (RDP) which sought "to provide a comprehensive approach to harnessing the country's resources to reverse the effects of apartheid and to attack poverty and deprivation over a five-year period" (Nolan, 1995, p.161). In essence, the RDP represented a highly interventionist microeconomically-orientated policy of physical and social infrastructure development targeted at the poorer sections of South African society. In contrast to the microeconomic focus of the RDP, GEAR is intrinsically a macroeconomic strategy based on "the premise that job creation is the way to address poverty and that to increase employment opportunities higher economic growth is required" (Nomvete, Maasdorp & Thomas, 1997, p.3). Key elements of GEAR include a deficit reduction scheme, tariff reductions, stable real exchange rates, conservative monetary policies, and "moderate wage demands" (Biggs, 1997, pp.48/49) so that it clearly falls within the boundaries of the "Washington consensus".

For the implementation of GEAR to be more effective than was the case with the RDP, it must address the problem of "lack of state capacity" which, according to Simkins (1996), was an important factor underlying the failure of the latter strategy. This writer identifies three dimensions of state incapacity. Firstly there exists "program incapacity" which refers to the difficulties involved in implementing specific programs in a complex, evolving and uncertain policy environment. Secondly, the reconstruction of the South African civil administration at the provincial and local levels from the former provincial and homeland bureaucracies has created a structure incapable of efficient policy implementation. And thirdly, "the establishment of the controls essential to good government takes time and is not always adequate" (Simkins, 1996, p.86).

Anecdotal evidence has been mounting on the problem of state incapacity in the new South Africa for some time. Until very recently, evidence of this kind has been met by either outright official denials or claims that any problems experienced are only transitory. However, the release of the Provincial Review Report by Public Service and Administration Minister Zola Skweyiya in September 1997 marked the beginning of a new era of transparency in South African civil administration. Prepared under the personal direction of Public Service and Administration Director-General Paseko Ncholo, this Report (hereafter referred to as the Ncholo Report) provides a devastatingly frank analysis of state incapacity in South Africa.

The question arises as to how policy makers should react to this problem. The 1997 World Bank Development Report identifies two generic approaches. Firstly, policy makers can attempt to "match the state's role to its existing capability, to improve the effectiveness and efficiency of public resource use" (World Bank Development Report, 1997, p.25). This report identifies the core functions of the state to include the establishment and maintenance of law and order, the maintenance of macroeconomic stability and "a non-distortionary policy environment", the provision of basic services and infrastructure, environmental protection, and "protecting the vulnerable" (p.4). The replacement of RDP by GEAR would seem to be very much in line with a strategy to limit the role of the state to these core functions. The Ncholo Report does, however, raise doubts as to whether the South African civil service possesses the requisite skills in the short run to manage even these functions efficiently and effectively.

Serious consideration therefore needs to be given to the second recommendation of the World Development Report which is that policymakers should seek ways of enhancing "state capacity by reinvigorating public institutions" (p.3). This requires an underlying conceptual framework that can be used to formulate public management reforms "from a broad, system-wide perspective that focuses on the causes, not the symptoms, of dysfunctionality" (Bale and Dale, 1998, p.113).

Recent developments in economic theory suggest two frameworks that can be used for this purpose. Firstly, many of the symptoms of state incapacity can be attributed to the various types of "government failure" identified in that stream of economic theory which, since the early 1970s, has made great strides in developing a "private interest" perspective on policymaking. While these theories did not predict the global wave of so-called "New Public Management" (NPM) reforms that have been implemented in the last decade or so, they certainly influenced their design (Aucoin, 1990; Hood 1991, 1994). Nowhere has this been more evident than in New Zealand where economic theories of government failure have been packaged together to produce "an analytically driven NPM movement of unusual coherence" (Hood, 1991, p.6). The overseas interest in the contractual solutions the New Zealand reformers have devised to correct problems of government failure has been considerable[1]. There is, however, a growing concern among its officials that the logic of contractualism may have been pushed beyond the point at which it starts to damage the "social capital" its public agencies need to draw on, if they are to forge collaborative links with other agencies and community groups in ameliorating the range of inter-related social problems that have been exacerbated by more than a decade of structural change and economic reform (Robinson, 1997; Boston and Dalziel, 1998).

The relationship between social capital and the effectiveness of government was highlighted in a twenty year study of regional governments in Italy by Putnam (1993). This study has spawned an already impressive volume of literature in economics and political science that moved beyond the conceptual definition and empirical measurement of social capital toward a framework that analyses how it can be produced and reproduced as an important institutional factor accounting for

[1] Allen Schick (1998) for example observes that:

> During the past decade, dozens of countries have sent delegations to New Zealand to observe its avant garde management practices and to interview government officials on how the new systems and procedures have affected the cost and delivery of public services. The World Bank and other international organizations have showcased New Zealand's reforms at various conferences, and some of the architects of the reforms have crisscrossed the globe extolling the virtues and portability of their country's version of results-oriented public management. Despite the interest and the sales efforts, only a few developed countries (such as Iceland and Singapore) have adopted selected features of the model; others (such as Sweden and the United Kingdom) have embraced a managerial ethic without subscribing to the hard-edged contractualism that differentiates New Zealand's reforms from those tried elsewhere. To this writer's knowledge, however, not a single developing or transitional country has installed the full New zealand model, although quite a few have been enchanted by the prospects of leapfrogging to the front rank of the international reform stakes (p. 123).

variations, not just in the quality of government , but also in economic growth performance (Fukuyama, 1995; Knack and Keefer, 1997).

Both government failure and social capital theories provide analytical frameworks that can be used to comprehend the symptoms of state incapacity reported in the much broader literature on policy implementation. Since the seminal work by Pressman and Wildavsky (1973), there have been an enormous number of studies that have sought to determine the factors that explain variations across programs and governmental units in the extent to which the objectives of public policies have been achieved. Sabatier's (1986) distinction between the top-down and bottom-up approaches to implementation research is particularly relevant to this paper since a top-down perspective would seem to lead to a focus on government failure while a bottom-up approach would highlight many of the concerns that have been raised in the social capital literature. This paper will accordingly relate the central themes of government failure and social capital theory to these perspectives on implementation before examining their relevance to concerns expressed by by the Ncholo Report and other studies of public administration in South Africa. The paper will go on to consider the contractualist approach to public management reform in New Zealand as the epitome of a top-down solution to government failure. It will then also evaluate this model from a social capital perspective and suggest ways in which a balanced approach to public management reform that takes into account both perspectives can be undertaken in South Africa.

THE THEORY OF GOVERNMENT FAILURE: A TOP DOWN PERSPECTIVE ON POLICY IMPLEMENTATION

A major shift in the mainstream economic perspective on policymaking has ocurred over the last three decades with a "public interest" approach that rationalized extensive state involvement in mixed economies as a response to pervasive problems of market failure increasingly giving way to a "private interest" approach which is much less optimistic about the capacity of governments to intervene to alleviate market failures and emphasizes 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 (Stigler, 1971; Peltzman, 1976; Magee, Brock and Young, 1992) 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. A second approach to the question of government failure has sought to develop overtly normative frameworks within which actual public policy intervention can be evaluated. Wolf (1989), Le Grand (1991) and Vining and Weimer (1991) have all sought to construct explicit conceptual analogues to the taxonomies of market failure advanced by Bator (1958)[2]. Thirdly, public choice theory applied the postulate of homo economicus to political processes underlying policy formulation and implementation, and developed a critique of government intervention. Various typologies of government failure have been advanced (O'Dowd, 1978; Weisbrod, 1978; and Dollery and Wallis, 1997) but they generally encompass three main forms.

Firstly, allocative inefficiency may arise from the bias towards the excess provision of public goods characteristic of distributive politics in representative democracies, sometimes termed 'constitutional failure' or 'legislative failure'. Politicians, it is argued, pursue self-interested strategies designed to maximize their chances or 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, inefficiency would still arise since agents appointed to implement public projects are unlikely to have sufficient incentives to carry out policies efficiently. 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 waste rather than social surplus.

In general these theories share the agency theoretic view that the public sector in a representative democracy can be seen as a vertical "chain of principal-agent relationships, from citizen to politician to bureaucratic superior to bureaucratic subordinate and so on down the hierarchy of government to the lowest-bureaucrats who actually deliver services to citizens" (Moe, 1984, p.765). From this top-down perspective, the policy implementation capacity of governments can be inhibited both

[2] Wolf, for example, has proposed that underlying "supply" and "demand" conditions facing non-market organisations such as the ill-defined nature of output, lack of contestability of supply and ownership, uncertain and ambiguous technology, absence of "bottom-line mechanisms", the high time-discount and incentive political actors have to propagate"solutions" without reference to implementation costs and the "decoupling" between those who receive the benefits, and those who pay the costs, of government programs tend to produce four types of "non-market failure". These are (i) the pursuit of private goals such as "empire-building" (Niskanen, 1971), "bureau-shaping" (Dunleavy, 1987) or perpetuating information asymmettries (Cullis and Jones, 1992) through "internalities" - internally developed performance standards that are largely unrelated to optimal performance; (ii) the "redundant and rising costs" that arise when "the revenues that sustain an activity are unrelated to the costs of producing it" (Wolf, 1989, p.63); (iii) "derived externalities"- the unintended and unanticipated side effects of government intervention "that are not realised by the agency responsible for creating them, and hence do not affect the agency's calculations or behaviour" (Wolf, 1989, p.77); and (iv) the "distributional inequity" that while " similar to inequalities flowing from nonmarket outcomes" (Wolf, 1989, p.84), characteristically occur in terms of power and privilege rather than in terms of income and wealth differences.

by factors that tend to (i) generate "incoherence" at the top - an inability to formulate clear, stable policy goals and limit the access of different pressure groups to formulation of policies to achieve these goals- and (ii) create the scope for agency failure as responsibilities for implementation are delegated down the hierarchy of government[3].

Government failure theories can therefore be subjected to the same lines of criticism that "bottom-uppers" such as Hjern and Hull (1982) have directed toward the top-down approach to policy implementation research. These include (i) its focus on central objectives and central actors and failure to emphasize the activities of street level bureaucrats (Lipsky, 1973) who generate "control deficits" as they develop coping mechanisms to deal with the pressures on them; and (ii) its implicit distinction between policy formulation and implementation which cannot be sustained in practice since the objectives of policymakers often evolve as policies are made and remade in the process of implementation. The main features of a bottom-up approach to studying policy implementation and its overlap with aspects of social capital theory will now be examined.

SOCIAL CAPITAL AND THE BOTTOM-UP APPROACH TO IMPLEMENTATION

The bottom-up approach is primarily concerned with the capacity of the state to address problems in those policy areas such as training, employment creation, crime prevention, local community development and so on, in which there is no dominant policy or agency but rather a multiplicity of governmental directives and organizations involved from both the public and private sector. In contrast to the top-down approach which starts from a policy decision and examines the extent to which its objectives are realized over time, the method of implementation analysis deployed by bottom-uppers such as Hjern et.al. (1982) is to: (i) identify the network of actors involved in service delivery in one or more local areas; (ii) ask them about their goals, strategies, activities and contacts; and (iii) construct from this information an understanding of the network that links local, regional and national actors involved in the planning, financing and execution of the relevant government and non-government programs. Sabatier (1986) considers that the strength of this approach is its focus on the strategies pursued by a wide range of actors but suggests that its

[3] According to Sabatier (1986) these factors can be identified with reference to "a manageable set of variables" (such as clear and consistent objectives, adequate causal theory, the structural limitation of "veto points", committed and skillful implementing officials) that provide "sufficient and necessary conditions for effective implementation" (1986: 268).

"fundamental" limitation is "its failure to start from an explicit theory of the factors affecting its subject of interest" (p.34).

Recent developments in the theory of "social capital" may be drawn from to address this limitation. The concept of social capital has been popularized by Putnam (1993), although this writer gives primary credit to Coleman (1988) for developing it. He defines social capital as the features of social life that enable participants to act together more effectively to pursue shared objectives. It is produced "in the spaces between people" and affects their ability to associate with one another particularly outside immediate and intimate relationships. Like other forms of capital, it is productive but differs "in that it is self re-inforcing and cumulative" (Putnam, 1993, p.38). Its depletion is more likely to occur through under- than overuse. In his study of regional governments in Italy, Putnam identifies the key components of social capital and argues that their establishment is "a precondition for economic development as well as for effective government" (p.36). This finding has attracted considerable interest in the economics profession, being cited with approval by Fukuyama (1995) and being subject to rigorous empirical analysis by Knack and Keefer (1997).

The key components of social capital identified by all these writers are "networks of civic engagement", "norms of generalized reciprocity" and relations of social trust. Drawing from game theory, they argue that through repeated interaction in networks that "are primarily 'horizontal' bringing together agents of equivalent status and power", norms are "inculcated and sustained by modeling and socialization (including civic education) and by sanctions" (Putnam, 1993, pp.171-2). The most important of these norms is generalized reciprocity which "refers to a continuing relationship of exchange that is at any time unrequited or unbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future" (p.172). The establishment of this norm will allow "dense networks of social exchange" to form in which "people can be confident that trusting will be requited, not exploited" (p.172).

Various mechanisms have been proposed whereby these elements of social capital contribute to better outcomes by facilitating greater co-operation. Most significantly from the perspective taken in this paper, Putnam posits a direct relationship between state capacity and social capital. He attributes regional variations in public sector efficacy in Italy to the density of associational life, finding, for example, that the more likely a region's citizens are to join football clubs and choral societies, the faster the regional government is in reimbursing health care claims. One explanation for this result is that monitoring the performance of government is facilitated by greater social capital. This can occur, directly, because the government agents themselves are more concerned with their reputation amongst people with whom they horizontally interact on a regular basis. It can also occur indirectly, because monitoring officials is itself a public good and the norms formed within networks of civic engagement help citizens overcome the collective action problems involved in providing this good. In addition, Putnam suggests that citizen-initiated contacts with government officials in the less-trusting, less civic-minded regions of southern Italy tend to involve issues of narrowly personal concerns, while contacts in the more trusting, more civic northern regions tend to involve larger issues with implications for the welfare of the region as a whole.

Apart from its impact on the efficacy of government activity, social capital has been posited to have a positive impact on a number of factors which impinge on economic performance. In societies characterized by high levels of trust and strong civic norms, transactions costs tend to be lower. There is consequently a greater range of market transactions in outputs, credit, land and labor (Fukuyama, 1995), there are stronger incentives to innovate (Rogers, 1983) and to accumulate physical and human capital (Galor and Zeira, 1993), there may a greater sharing of household risk (Morduch, 1995) and the scope for co-operative action by local groups is expanded particularly in cases where the excessive exploitation or under-maintenance of assets would result from purely individualistic behavior under open access to "common property" resources (Ostrom, 1990).

Knack and Keefer (1997) have recently found evidence that social capital matters for measurable economic performance. They used Barro-type cross-country tests to estimate the impact of trust, civic norms and associational activity on growth rates using indicators of these social capital variables taken from the World Values Surveys (Inglehart, 1994) for a sample of 29 market economies[4]. While they found a significant positive relationship between the first two variables and growth rates they also found that "group membership is not significant in either growth or investment equations" (p.1272). They explained the apparent insignificance of associational

[4] The question used by these surveys to assess the level of trust in a society is: "Generally speaking, would you say that most people can be trusted, or that you can't be too careful in dealing with people?" The trust indicator used by Knack and Keefer is the percentage of respondents in each nation replying "most people can be trusted" (after deleting the "don't know" responses). The strength of norms of civic co-operation are assessed from responses to a question about whether each of the following behaviours "can always be justified, never be justified or something in between."

(a) "claiming government benefits which you are not entitled to"
(b) "avoiding a fare on public transport"
(c) "cheating on taxes if you have the chance"
(d) "keeping money that you have found"
(e) "failing to report damage you've done accidentally to a parked vehicle".

The writers summed values over the five items to create a scale indicating the strength of civic norms. Finally from responses to a WVS question about whether respondents belonged to any of ten types of social group, they calculated a measure of the density of associational activity in terms of the average number of groups cited per respondent in each country.

activity as a predictor of growth by suggesting that the positive effect Putnam (1993) posited this variable to have, in inducing greater co-operation and solidarity that can be invoked in resolving collective action problems , would be offset by the negative effects groups have on growth when they act as rent-seeking organizations (Olson, 1982), lobbying for preferential policies that impose disproportionate costs on the rest of society. In investigating the determinants of the significant social capital variables Knack and Keefer (1997) found that they are stronger in countries where "low social polarization, and formal institutional rules that constrain the government from acting arbitrarily, are associated with the development of co-operative norms and trust" (p.1283).

This finding is important since it suggests that social capital can only enhance state capacity and economic growth where it promotes social cohesion, a goal that is realized in a "society in which people work toward common goals and in which diversity is recognized but does not lapse into conflict" (Robinson, 1997, p.2). However, communities where social ties between members are strong do not always support social cohesion. They may be so hostile to outsiders that they may instigate civil, racial or sectarian conflict or, as tends to be the case with gangs, they may promote illegal or morally reprehensible behaviors.

A bottom-up perspective on policymaking suggests that the link between social capital and social cohesion may be strengthened where street level bureaucrats strive to develop "bridging social capital" between the government agencies, voluntary organizations and community groups concerned with the delivery of social services at the local or regional level. While the networks and norms that characterize social capital cannot be imposed by government or bought by the market, government agents can dramatically affect the likelihood of social capital being developed across the boundaries of social difference. To the degree that they seek to follow a "catalytic model of governance" (Osborne and Gaebler, 1992), they will seek to bring different agencies and groups together in deliberative fora where, through extensive consultation and debate , scope can be allowed for the development of bridging social capital and for forging from conflicting views and interests a greater understanding of how to work together to address issues of common concern. Agencies seeking to act in this participatory way will seek to involve groups and communities that tend to be under-represented in the political process and give them a equal opportunity to "make their case" so that they are left with the impression that they have engaged in a reasonable process[5]. The network relationships they build

[5] Barber (1984) suggests that repeated participation in deliberative processes will only be forthcoming when this norm of reasonableness is sustained:

> The word reasonable bespeaks practicality. It suggests that persons in conflict have consented to resolve their differences in the absence of mediating common standards, to reformulate their problems in a way that

with other agencies should be in the form of horizontal partnerships rather than vertical principal-agent or patron-client relationships. As Putnam (1993) puts it:

> A vertical network, no matter how dense and no matter how important to its participants, cannot sustain social trust and co-operation. Vertical flows of information are often less reliable than horizontal flows, in part because the subordinate husbands information as a hedge against exploitation. More important, sanctions that support norms of reciprocity against the threat of opportunism are less likely to be acceded to (p.174).

As will be highlighted in the following sections, the capacity of government employees to build these partnerships will be crucially related to general public perceptions of their trustworthiness. However, apart from the formal institutions public administration systems establish to assure the probity and competence of government employees, it is clear that governments can facilitate trust-building between their agencies and local communities through (i) the increasing devolution of power and responsibility from the center to local implementation networks; (ii) the targeting of discretionary grants to individuals and groups who contribute to strengthening communities; and (iii) the provision of community development advice and deployment of government-employed community development workers who are capable of empowering voluntary organizations with knowledge and skills and contacts with organizations of similar interest.

Policies to re-invigorate state capacity ought therefore to give as much consideration to the role of government agencies in fostering social capital as they do to ameliorating problems of government failure. The relevance of these two concepts to the findings of the Ncholo report on administrative capacity in South Africa must now be considered.

SOCIAL CAPITAL, GOVERNMENT FAILURE AND THE NCHOLO REPORT

The first obstacle the incoming GNU faced in the process of developing a unified public service that could promote greater social cohesion was the labyrinthine structure of the civil service that had been built up under the policy of apartheid. This comprised the former South African civil administration (including the "own affairs" departments for coloreds, whites and Indians), the civil services of the ten former independent and self-governing tribal homelands, and the provincial administrations

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encompasses their interests (newly and more broadly conceived) even while it represents the community at large in a new way. "Well, I guess that's reasonable," admits an adversary who has not gotten his way but has been neither coerced or cajoled into the agreement he has consented to. He is neither victor nor loser; rather he has reformulated his view of what constitutes his interests and can now "see" things in a new manner (p.127).

of the Cape, Orange Free State, Natal and Transvaal. The byzantine complexities of this administrative structure is highlighted by considering a particular governmental service like education, which had seventeen separate departments!

Since April 1994 considerable progress has been made in the consolidation and reorganization of these inherited structures. The Ncholo Report (1997, p.2) has outlined the main features of this reorganization as follows:

- Amalgamation of the previous racially based administrations (RSA, Own Affairs administrations, Homelands, Self-Governing Territories, and previous provincial administrations) into a single public service split between nine provinces and the new national departments,
- reallocation of staff and resources by the provinces into new departments based on the national structures,
- creation (in some cases) of new district level services, and
- rationalisation of provincial departments in line with the allocation of resources.

At the same time, the GNU has sought to change the objectives and priorities of the South African public service along the following lines (Ncholo Report, 1997, p.2):

> It has begun the longer and more difficult process of improving how we deliver services whilst at the same time having to cut expenditure. Provincial administrations have: reprioritised services in accordance with the policies of the new government, begun to develop management skills to make sure that services are delivered better, improved the representativeness of the Public Service, especially at senior levels, made efforts to bring services closer to the people of the country, especially in rural areas, and begun to re-orientate services to focus on the disadvantaged groups in society.

This vision would seem to be consistent with a bottom-up approach to public service delivery since it allows scope for the devolution of responsibility to the community level at which a new cadre of government officials could promote the development of bridging social capital across horizontal implementation networks. The Ncholo report did, however , identify some serious impediments to advancing public administration in this direction.

One of the key outcomes of the negotiations between President De Klerk's National Party administration and the liberation movements was that all public sector employees were guaranteed continued employment under the interim constitution. In addition to the severe constraints imposed by the negotiated guarantee of job security for all serving civil servants, the transformation process was further constricted by a deliberate policy of changing the employment profile to better reflect the demography of South African society. In practice, this has meant hiring people of color and women wherever possible. The instrument used to circumvent the job security guarantee has been a "voluntary severance package (VSP) scheme", in terms of which substantial payments are made to bureaucrats who decide to leave the public service.

The effects of these constraints have been to severely damage the administrative capacity of the South African public sector. In many key departments, like the national Department of Finance, virtually all of the former top managers, predominantly white male Afrikaners, have taken voluntary redundancy. The result is a dearth of expertise, with national and provincial departments competing for scarce experienced public administrators. Ramatlhodi (1997, p.21) has summarized the latter problem as follows:

> The situation at the moment is far from ideal. Some national departments appear to be more determined to siphon off what little capacity we have left rather than to strengthen our structures. Far too often, provinces work hard to find suitable managers to serve their various administrations, only to find that their most capable people are "hijacked" by a national department - sometimes with a mere three days' notice.

Given the convoluted structure inherited from the former apartheid state and the nature of public sector reform and reorganizsation, it is hardly surprising that the administrative capacity of the South African state has been drastically impaired. Initial anecdotal reports of problems in this regard began shortly after the new GNU administration took office. For instance, a crisis soon emerged in the administration and collection of import duties by the South African Customs Service. Evidence suggests that although extensive and longstanding tariffs apply to most imported goods coming into South African ports, customs officers often no longer impose these duties on billions of rands worth of goods (Old Mutual Economic Research Unit, 1996, p.5; Lamont, 1997, p.18). Whether this is due to corruption or incompetence is not clear.

Similarly, we have already indicated that the RDP failed because of inadequate state capacity (Simkins, 1996). Blumenfeld (1996, pp.67/68) described the nature of its administrative shortcomings as follows:

> By the end of the GNU's first year in office, however, the programme was clearly in difficulties, both practically and politically. Except for electrification of (existing) houses, improvements in the provision of water supplies, and the primary school feeding programme, little real progress had been made towards meeting the first-year targets, especially in the crucial area of housing... Moreover, the probity and efficiency of the new administration were quickly undermined not only by evidence of bureaucratic incompetence and excessive red tape, but also by allegations of fraud and corruption in several projects.

Thereafter reports of administrative meltdown multiplied rapidly, especially in the various provincial administrations[6]. The parlous lack of administrative capacity,

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[6] For example, in the East Cape the provincial government drastically overspent its R2,4 billion rand pension budget and on 6 October Welfare Minister Mandisa Marasha (1997, p.7) was obliged to announce that "the Department will not be in a position to process new applications [by prospective social security beneficiaries] before the end of the financial year"! In the same province, the Department of Education could not even manage to pay building contractors involved in school construction in disadvantaged areas (Ratshitanga, 1997, p.38). Similar instances of administrative

especially at the provincial level, has finally elicited various official responses[7]. But by far the most important official initiative into administrative incapacity in South Africa has been the Ncholo Report. Its emphasis fell on the provincial level of government "because of the fact that more than 60% of public servants are employed in the provinces" (Ncholo Report, 1997, p.3). The authors of the Report took as their foundation the "Constitutional Principles for public administration", notably (Ncholo Report, 1997, p.10/11):

- [T]hat a high standard of professional ethics is promoted and maintained;
- there is efficient, economic and effective use of resources;
- public administration is development-oriented;
- public administration must be accountable;
- good human resources management and career development practices, to maximize human potential, must be cultivated; and that the
- public administration must be broadly representative of the South African people.

They appear to have recognized that institutionalization of these principles is essential if government agencies are to establish their credentials with their potential partners in the delivery of community services. There would seem to be no lack of such potential partners. South Africa has an excellent network of non-government organizations, like the Black Sash, various church groups, and numerous "school feeding schemes", involved in the provision of basic social welfare services. It also has a highly developed construction industry with expertise in the delivery of physical infrastructure. Its non-government organizations would seem to have the capacity to form effective implementation networks with government agencies if they could trust the employees of these agencies to follow the rules of "progressive public administration" (PPA) that are essentially designed to assure the competence of civil

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collapse are evident in virtually all other provincial administrations. In the Western Cape, for example, "up to half of all businesses are not registered for tax" (*Cape Argus*, 1997, p.27). Indeed, Greybe (1997, p.1) has argued that "the Northern Province, Eastern Province and Kwazulu-Natal are on the verge of collapse".

[7] For instance, Constitutional Development and Provincial Affairs Minister Valli Moosa has raised the possibility of greater GNU involvement (Edmunds, 1997, p.32):

> We would have to take a very hard look at how to reorganise the administration in order to ensure government services are delivered in the most efficient manner. Clearly at this stage the question of a greater role for national government departments in provincial administration should be on the agenda.

However, given the constitutional basis of provincial autonomy, it is hard to see how this suggestion could be put into practice. Similarly, Finance Minister Trevor Manuel has announced that he will table a Treasury Control Bill in 1998 to deal with "budget violations" (Fine, 1997, p.6). This will have two main dimensions. Firstly, "accounting officers" will be held legally responsible for adhering to budget guidelines, and this will include "criminal sanctions". And secondly, " no provincial or local government would be compensated for its failure to collect revenues which should have been due from taxation and borrowings" (Fine, 1997, p.32).

servants (through appointment on merit) and limit their practice of arbitrary power, corruption and patronage.

While the main focus of the Ncholo Report would seem to be on the need to foster social cohesion by establishing institutions that allow the development of social capital, most of its specific findings can also be conceptualized in the language of public choice theory so that an exceptionally long list of government failures can be reduced to manageable proportions. In terms of the standard taxonomies of government failure outlined earlier, it is clear that the vast majority of problems identified in the Ncholo Report fall under the category of "bureaucratic failure". For instance, "lack of performance monitoring" (section 3.2); communication problems within or between departments (section 4.1.3); non-implementation of departmental strategic plans (section 4.1.9); inadequate financial control (section 4.4.4); "lack of complete inventories and asset registers" (section 4.4.9) [under "transversal issues"]; "large number of supernumerary staff" in provincial Departments of Agriculture (section 5.5.3); "large number of excess staff" in provincial Departments of Public Works, Roads and Transport (section 5.5.4); "no norms and standards have been set" for provincial Departments of Education (section 5.6.12); and severe "problems experienced with the payment of pensions and grants" in provincial Departments of Developmental Welfare (section 5.11.4).

However, other forms of government failure also appear in the Ncholo Report. For example, it is easy to identify instances "political" or "legislative failure". In the realm of national government, the Report (1997, p.14) has observed that "many National departments create new policies without considering how they are to be implemented". Similarly, "the focus of much of the strategic activity of government has been policy formulation; so far performance improvement has not been stressed" (Ncholo Report, 1997, p.15). The behavior of politicians at the provincial level can also be identified as legislative failure. For example, the Report (1997, p.25) highlights the following problem:

> In the majority of provinces, the relationship between the political leadership and the administration is not well defined. For example, in many cases MECs have become involved in the administration of departments and undermined the role of Heads of Department. MECs bypass normal, and appropriate, channels of management and become involved in recruitment and in the day-to-day running of departments. In some cases they even see themselves as accounting officers. The problems are made more severe when the political environment in the province is unstable, and especially if public servants are aligned with different political factions.

Much the same kind of problem seems to exist in individual departments in many provinces, as outlined in Chapter 5 of the Report. Consider the case cited under section 5.5 involving provincial Departments of Public Works, Roads and Transport (Ncholo Report, 1997, p.56):

> This is an area where structural changes (and also changes in political leadership) have been extremely frequent. In one province, the three components involved - Works, Roads and Transport - were rearranged twice within the same year into new departmental structures. One of the components had five different MECs during the same period. Similar changes, although somewhat less frequent, have occurred in other provinces ... These effects are aggravated when MECs become strongly involved in the running of the department - its functioning can then become paralysed for months following a change of MEC.

Evidence of the rent-seeking category of government failure can also be found in the Report. For instance, the Report (1997, p.45) highlighted the problem of "ghost workers"; it noted that "the exact extent of the problem is unknown because many provinces were unable to provide accurate personnel statistics" and "in a number of provinces there were huge discrepancies between the number of personnel on the records of the department and the payroll statistics". Similar evidence emerged in the case of provincial motor vehicles (Ncholo Report, 1997, p.46):

> In one province, there was an estimated R50 million fraud per annum in the use of its provincial government vehicles. Evidence of such fraud was found throughout the country. In the above example, the bulk of this fraud was between government officials and petrol pump attendants. It was also clear that staff that leave the government service often take their cars, and yet still owe the State money for them.

Given the pervasiveness of these types government failure in South Africa, the question remains as to whether they should be exclusive focus of reform initiatives. Will the amelioration of these problems unambiguously establish the conditions for the development of social capital in the delivery of public services or could the logic of a reform model derived from government failure theory be pushed beyond the point at which it starts to damage social capital? We will examine this issue with reference to the public management reform experience in New Zealand.

THE NEW ZEALAND MODEL OF CONTRACTUALIST GOVERNANCE

For advocates of the New Zealand model of public management reform, the main lesson which other countries can draw from its experience is the value of a consistent, comprehensive conceptual framework. According to Bale and Dale (1998) this framework, which was based on identifiable theories of government failure, proved valuable in several ways. It helped ensure that the reform was developed from a broad system-wide perspective derived primarily from agency theory and public choice that focused on "the lack of management incentives" that lay at root of pervasive government failure rather than on "the symptoms of dysfunctionality . . .

such as financial waste , excessive rules and poor performance". It provided "consistency for the multiple layers of decisions required in the design and implementation of the reform". It addressed all aspects of public sector management and all aspects of the public sector (departments, government corporations, local governments). It reduced fears that the reform was just another ad hoc initiative and (significantly) "guided the sequencing and implementation of the reforms . . .based on what was most important from a top-down perspective rather than on what took the fancy of departments" (pp. 113-4).

According to Schick (1998), the enormous number of public management reforms implemented in New Zealand since 1988 "add up to an integrated concept of how government should work" a concept that can be encapsulated in the phrase "Government by contract" (p.124). The fundamental principles according to which this policy paradigm was to be institutionalized were set out by the New Zealand Treasury in Government Management, its briefing papers to the incoming Labour government in 1987 and subsequently legislated for in the State Sector Act of 1988 and Public Finance Act of 1989. Moreover as "gaps" in their realization "have been identified, additional requirements have been imposed” (Schick, 1996,p.73).

A wide range of contractualist instruments have been introduced in this country to establish and strengthen contract-like relationships in which bureaucrats function as agents either of elected officials, funding agencies or civil servants placed further up the hierarchy of government. These have included performance agreements between departmental heads and their portfolio ministers, contracts between funders and purchasers, purchasers and providers, funders and regulators and so on (Boston, 1995). Although the legal status of these contracts varies, with only some being legally binding , their general aim has been to specify as precisely as possible the resources that one side will provide and the performance the other side will produce.

In the case of government departments three elements of performance were emphasized. First the heads of these departments lost their permanent tenure and were appointed to fixed terms up to five years, renewable for a further three years depending on performance. Now known as "chief executives" (CEs) they negotiated performance agreements with Ministers which made it clear that the latter were responsible for outcomes and could only hold CEs accountable for the delivery of clearly specified "outputs". The rationale for this distinction was that while outcomes are often not within the control of the CE they can be held accountable for outputs which can be relatively well-defined in advance. Moreover by making CEs accountable for outputs they could be left free to select the mix of inputs to be used in producing these outputs so that they would have “flexibility in hiring and paying staff; obtaining office accommodation, purchasing supplies and services and spending on other inputs” (Schick, 1996, p.2). Secondly, the potential conflict between price and rate of return objectives which can arise because the ministries both "own" departments and purchase their outputs was resolved by treating all transactions between departments as arms-length transactions so that departmental outputs were charged for at a price equivalent to that set in the private sector. Thirdly, policy advice and service delivery functions were separated to reduce the potential for policy advice bias and limit the scope for special interest groups to capture the agencies responsible for regulating them (Posner 1974).

In general, it appears that New Zealand has gone to "extraordinary lengths" (Schick, 1998, p.125) to create the conditions under which formal contracts are negotiated and enforced. Many departments have been restructured to transform them into single objective, manageable units in which resources can be more closely matched with tasks so that the inherent problems associated with specifying non-market outputs can be ameliorated. In addition there has been a comprehensive overhaul of the public sector's budgetary and accounting systems. Budgetary appropriations for the operating expenses of departments are now made by output classes and a capital charge is levied on the value of each department’s net assets. To generate the information and incentives required to control and monitor departmental spending there has been a shift from a cash flow to an accrual basis for financial statements, the budget and appropriations while a comprehensive and detailed reporting system has been instituted within government departments. This requires them to prepare monthly financial reports, quarterly performance reports on their purchase agreements, half-yearly reports on the performance agreement and an annual audited report on financial results and outputs. Schick was struck with the speed with which these reforms were put into practice observing that "within about eighteen months after enactment of the Public Finance Act in 1989, all departments had shifted from cash accounting to budgeting on an accrual basis" (1996, p.3).

The New Zealand model of public administration has thus come to be distinguished both by its emphasis on strengthening contractualism and output accountability as solutions to pervasive agency faliure in government and by the speed with which the reformers sought to effect a revolution in public management "without going through the protracted pilot testing and cautious implementation that have slowed innovation in other countries" (Schick, 1996, p.2). Concerns about carefully evaluating the net benefits of the reforms were initially subordinated to a drive to complete the implementation process as quickly as possible, but some empirical studies of their consequences have started to surface in the last five years.

The Office of the Auditor General of Canada (1994) reported that despite the fall in the numbers of public servants, and in some cases decreasing funds, there is little evidence of falls in either the quantity or quality of services provided by "core" public sector agencies in New Zealand. According to the senior officials interviewed during this study, the savings generated by improved cash management had covered the costs of adjustment. The New Zealand Treasury (1996) found that under the new public management and accounting systems, expenditure targets had "been achieved with some precision" and that there "is evidence of productivity gains, where unit costs of a sample of standard outputs have been measured over the duration of the reforms" (p.105). Scott et. al. (1997) also reported significant gains in productive efficiency and the use of assets, especially working capital and cash, that could be attributed to the reforms. Goldfinch (1998), however, sounds the following cautionary note:

> A number of caveats should also be drawn regarding apparent efficiency gains so far measured. Some productivity improvements may be largely due to considerable increases in hours worked, especially in the smaller ministries. This implies that efficiency gains may be in part due to tighter employment conditions and shrinking public sector resourcing, rather than necessarily being a reflection of efficiencies gained through new management practices or institutional change. It is also unclear to what extent efficiency gains are being delivered by such things as the improved competitive environment due to deregulation, improvements in technology, or the political will of ministers (p.216).

The most comprehensive evaluation of New Zealand's public management reforms is contained in the 1996 Schick Report. This report essentially attributes the bulk of the efficiency gains it observed to the greater discretion the reforms gave public sector managers over input decisions while arguing that the costs imposed by the reforms have arisen from their tendency to push the logic of contractualism too far. Schick posits that:

> The reforms inspired by a managerial perspective have brought most of the State sector improvement experienced over the past decade. This is clearly the view of the senior and middle officials interviewed for this report. In conversations, they overwhelmingly endorsed the view that the most important change was freeing managers to manage. Some suggested that upwards of 75 per cent of the gain has ensued from this change alone (p.23).

He nevertheless suggests that while the “hard-edged contractualism” of the New Zealand model has made managers more accountable for those aspects of their performance which are under their control, it does have shortcomings and costs.

Most obviously, the transactions costs incurred in negotiating agreements, monitoring compliance and preparing reports has been high, particularly for small departments, and has, in some cases “soaked up a substantial part of the efficiency gains” (p.24) that they have been able to achieve after restructuring. More fundamentally the contractual relationships established through the reforms were bilateral in character. This has meant that it has been difficult to take account of the "ownership interest" of the third party - the government - in the long run capacity of its departments to invest and innovate. This capacity could atrophy as purchasing parties, faced with funding cuts, try to squeeze as much output out of limited funds as they can in the short run.

Moreover, although the reforms emphasized the distinction between "outputs" and "outcomes", Schick comments that "despite expert and sincere effort" slow progress has been made in the specification of outcomes. He again relates this to the bilateralism inherent in the contractual model of reform since "outcomes are externalities in two-party relationships; therefore it is exceedingly difficult to assign responsibility for them" (p.26). Schick is also concerned with the way the contractualist approach "may diminish public-regarding values and behavior in government" (p.25). He worries that a public service ethic and a commitment to professional excellence may be replaced by a "check-list mentality" through which managers focus almost exclusively on complying with the terms of their various contracts and arrangements. As a result of the tight monitoring of the provision of specified outputs, the "invisible", unspecified aspects of departmental service which would be supplied under "responsible" management might be crowded out. Schick does not think that this problem will be "remedied by even more detailed specification of performance" (p.87) but advocates instead a "responsibility" model of accountability[8].

While Schick considers that greater managerial discretion has contributed to efficiency gains in the New Zealand public sector he does not prescribe "letting managers manage" as a solution to government failure in developing countries where "there are two co-existing civil service systems- one based on formal rules, the other on actual practices" (Schick, 1998, p.128). He points out that while many developing countries have formal management control systems that prescribe how government should operate so that "on paper everything is done according to rule" (p.127), informality can flourish in practice. For instance civil servants may be hired "because they know the right person or have contributed to some organization or cause", the difficulties low official pay scales place in the way of recruiting people with sufficient skills may be circumvented by placing them in two or more positions (leading to the phenomenon of "ghost workers") and expenditure by departments could be determined more by available cashflow than by the amounts authorized in formal budgetary appropriations. Schick acknowledges that informality in public management may have its "positive side" since it facilitates "the maintenance of fiscal

[8] In doing this Schick distinguishes accountability - "an impersonal quality, dependent ... on contractual duties and informational flows" from responsibility - "a personal quality that comes from one's professional ethic, a commitment to do one's best, a sense of public service" (p.84).

discipline despite unrealistic budgets and the provision of public services despite rigid rules and controls". He points out, though, that its costs may be high; "they include widespread evasion of civil service rules and other controls, the time and resources spent in beating the system, distrust of government, routinized corruption, and inattention to the outputs and results of public programs and the performance of government agencies and officials" (p.128).

In Schick's view "no country should move directly from an informal public sector to one in which managers are accorded enormous discretion to hire and spend as they see fit" (p. 129). The essential precondition for adopting selected features of the New Zealand model would seem, at the very least, seem to be a formal budgeting system in which appropriations control spending and correspond to actual transactions and a formal civil service system that governs how public employees are hired and paid. He thus treats public management reform as a path-dependent process in which the efficiency gains associated with NPM can only be fully realized on the basis of the historic achievement of a PPA system that has established a "formal rule-based, honest public sector" which "encourages managers to internalize a public ethic of proper behavior" (p.130).

Schick has certainly established some grounds for exercising caution in considering the adoption of New Zealand-style public management reforms in South Africa. The Ncholo Report would seem to suggest that there is sufficient informality in the South African public sector, to make reformers give careful consideration to its appropriateness. Schick's arguments do, however, need to be set within a broader social capital perspective to allow this issue of appropriateness to be more fully assessed.

A SOCIAL CAPITAL PERSPECTIVE ON THE APPROPRIATENESS OF THE NEW ZEALAND MODEL

A social capital perspective can provide some insight into the way a reformist network sought to enhance their capacity to supply the strong policy leadership required to implement and consolidate a comprehensive program of liberalization, stabilization and public sector reform (CRP) over the period 1984-1993 in New Zealand. The key players in this network were (i) the New Zealand Treasury (NZT), the pre-eminent control agency and the dominant source of policy advice[9]; (ii)

[9] This control agency has long occupied a potentially influential position in the New Zealand policy process both because its official function of being the controller of the government’s finances places it at the centre of public administration and also because it is formally required to comment on all departmental submissions to the Cabinet which have economic implications. By setting out its blueprint for comprehensive policy reform in its briefing papers to incoming governments after 1984, the NZT signalled that it was redefining its advisory role in a way that involved it exercising, to a

reformist factions within both major political parties who could be relied upon to drive NZT reform proposals through the various "veto points" at cabinet, caucus and parliamentary level[10]; and the "Business Roundtable" (BR), a self-selected lobby group which includes in its membership (which is by invitation only) the chief executives of most of New Zealand's largest companies[11]. The way interaction between these key players built up norms of trust and reciprocity so that they not only shared a "first order" commitment to advance reform in the same direction but also a "second order" commitment to advance one another into positions to exert leverage at each stage of the policy cycle (Wallis, 1999) might be regarded as a classic case of social capital formation. However, it should be pointed out that this network did not seek to strengthen the linkages between state and society, in the manner posited by Putnam (1993), so much as it sought to sustain and strengthen linkages between the New Zealand government and its major suppliers of public finance.

While both reformist politicians and the NZT presented themselves as guardians of taxpayer interests[12], they can be viewed as being most crucially accountable to representatives of overseas lender interests such as the World Bank and the IMF. They sought to assure these institutions that they were not just committed to advancing through legislation an extreme version of the Washington consensus. They also made provision for the effective top-down implementation of these reforms and for their protection against future reversal by committing future governments to explicit, transparent inflation targets through the Reserve Bank Act of 1989 and official debt to GDP targets through The Fiscal Responsibility Act of 1994. An important long term consequence of the financial deregulation carried out by the

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greater degree than before, its agenda-setting capacity. Moreover , to the extent that its officials followed the framework set out in these briefing papers, they were freed to devise bold and innovative reform proposals to correct problems of government failure. The control function of the NZT changed from one of evaluating the consequences of policy proposals to one of ensuring their consistency with the principles it had established and coherence with the reform processes it had set in motion. It was empowered to perform this new control function by the establishment in 1985 of a Cabinet Policy Committee with the task of ensuring the clarity and coherence of all policy. Since this structure was serviced by the NZT, it could perform a "gatekeeper function", ensuring that in most situations its own policy line would be ascendant.

[10] Roger Douglas, the finance minister in the Lange-led Labour government from 1984 to 1988 and Ruth Richardson, his successor in the Bolger-led Nationbal government from 1990 to 1993, did this through a series of legislative "blitzkreigs" that were designed to prevent their opponents from having sufficient time to mobilize effective resistance to legislation and also to build political momentum for further reform.

[11] Since setting up an office in Wellington in 1986 under the direction of a former Treasury official, Roger Kerr , the BR has become a persistent and effective advocate of the advancement of reforms designed to limit and reduce government failure in the New Zealand economy. Its members enjoyed sufficient privileged access to cabinet members to enable it "take the case up" when "Treasury had its public advocacy blocked", as it often did in the late1980s following the resignation of Roger Douglas (Easton, 1997, p.116).

[12] From this point of view they may be seen as fitting Hardin's (1982) image of political entrepreneurs engaged in making effective the demands of what is essentially a "latent" interest group.

Labour government in 1984 has been that "capital flight" can be used to discipline any future governments contemplating breaking these macroeconomic policy commitments.

The credibility of these commitments also depended crucially on the capacity of the policy leadership network to overcome the resistance to their fiscal "decrementalism" that is likely to be generated by the providers and users of public services. Where providers are not made accountable by funders for the delivery of clearly specified outputs to users, they may respond to funding cuts by reducing the quality and quantity of output provided, rather than by striving to realize gains in productive efficiency. Their scope for pursuing this option will be greater where they are accountable to multiple principals for multiple outputs and where they can exercise professional discretion in setting quality standards and the level of provision of the "invisible", unspecified, outputs. By reducing levels of service provision they may mobilize a public backlash to spending cuts and thereby place vote-seeking politicians under pressure to subsequently reverse them.

The distinctive public management reforms implemented in New Zealand may thus have enhanced the credibility of fiscal decrementalism by making providers contractually accountable for clearly specified outputs so they can only continue to operate with diminished funding by using inputs in a more efficient ways. Moreover, the reorganization of the public sector that followed these reforms gave the policy leadership network the opportunity to penetrate, break up and reconfigure the fragmented structure of relative stable and exclusive "policy communities" that, according to Rhodes and Marsh (1992), "exist to routinize relationships" between the government departments and sectional interests affected by functionally segmented areas of public policy. These writers argue that that while such policy communities do not necessarily seek to frustrate any and all change, they often tried to "contain, redirect and ride-out such change, thereby materially affecting its speed and direction" (Rhodes and Marsh, 1992, pp. 196-7).

In New Zealand, the BR supplied a pool of "change agents" who could be "moved among key institutions, putting reforms in place and preventing bottlenecks" (Bollard, 1994, p.91). Kelsey (1995) refers, in particular , to the way these executives tended to recommend one another to fill positions either in control agencies, or in the newly restructured former government departments and enterprises. Once these change agents had penetrated a particular policy community, they sought, as far as possible, to prevent its former leaders from using their specialized knowledge to capture the change process and steer it in ways which protected their interests or views about its desired outcomes. Moreover, the "leadership" provided by these change agents also had a vertical dimension as they sought to build up a "following" that could be relied on to overcome the cultural resistance of the informal networks of professional service providers and street level bureaucrats that existed within the public organizations they were striving to transform.

There have been growing concerns that the drive to strengthen the leadership capacity of this policy elite may have diminished the capacity of public agencies to foster social capital formation at the interface between the state and civil society and led to some loss of social cohesion in New Zealand. These concerns have not just been expressed by domestic critics of the reforms undertaken in this country such as Riddell (1997, p.25) who observes that "the civic community in Aotearoa/New Zealand is polarized, mistrustful of the political process, suspicious of national leadership, feeling disenfranchised with regard to participation and disheartened by a sense of loss", James (1992, p.300) who reports that following the collapse of a broad consensus "New Zealand society is under strain" and Kelsey (1995, p.271) who indicates "a deeply divided society" in which "social structure was severely stressed". A similar discordant note has been sounded from within the public service by the Department of Internal Affairs (1997, p.3) which notes that following twelve years of economic reform, "questions are being raised about the effect of these and other changes in society on social cohesion". This agency has sought to explicitly incorporate social capital concepts into its policy advice framework, taking its cue from former Prime Minister, Jim Bolger, who recognizes the need to "bring back the balance" and predicts that future policy development will place even greater emphasis on the role of communities in "building the social capital of the nation" (Blakely and Suggate, 1997, p.83).

It could be argued though that the New Zealand model of managerial accountability for outputs and discretion over inputs may actually foster the development of the voluntary sector by allowing public managers to expand the contracting out of service provision to non-government organizations particularly where the mobilization of volunteers by these agencies gives them a cost advantage relative to "in-house" providers in public agencies. In other regards though the contractualist model may hinder the development of social capital in bottom-up implementation networks.

A common criticism of the New Zealand model is that its advocates have failed to adequately appreciate the historic achievement and enduring value of a unified public service characterized by a high degree of interagency co-operation and a strong professional culture among career civil servants (Hood 1994, p.130). The tendency has therefore been to allow the tasks and associated organizations of modern government to become disaggregated, resulting in what Thynne (1996) calls an "atomised component management" (p.49). According to Self (1995, p.341), this "strongly impedes co-operation between agencies, especially of an informal kind, or the adoption of common policies and standards, except where clearly imposed from above". The capacity of governments to seek co-ordinated solutions to problems such as unemployment, poverty and environmental degradation may thus have been eroded. The net consequence, according to Thynne (1996), is that from a bottom-up perspective the public sector may have been rendered even less responsive to user needs since "the more organisations become narrowly focussed and 'componentised' the greater the number of agencies involved in the provision of any social service and therefore the more bewildering and inaccessible the system becomes for individuals in their necessary encounters with authority" (p.51). Moreover, the professionalism of public service provision may have been eroded as the emphasis on financial economy and prompt service delivery induces providers to "cut corners" and discriminate against "hard cases" (Self 1995, p.340).

The capacity of voluntary organizations to form collaborative links with government agencies may also be adversely affected by a widespread move to contracting. Riddell (1997, p.27) considers that the negative effects of contractualism on voluntary sector activities in New Zealand "include reduced levels of funding, increased administration and record-keeping and a new sense of competitiveness". However, he stresses that the "most disturbing feature of the new relationship under the regime of contracting "is the pressure to change the nature and purpose of the voluntary sector". This view is echoed by Nowland-Foreman (1995, p.46) who points out that if voluntary organizations "allow their vision to be narrowed to merely agents providing government-defined services in response to specific contracts, then they will become indistinguishable from sub-contractors or 'little fingers of the state'". The comparative advantage of such organizations lies not just in their capacity to mobilize volunteer support but in integrating people into the community through preventive, developmental and advocacy activities that are unlikely to attract funding under the New Zealand model since they generate outputs that are difficult to measure. Dalziel and Higgins (1996, p.15) contend that "by crowding out this work, and replacing it with essential and emergency services, the state redirects the resources of the community away from the very work that is required to counter the exclusionary effects of its policy reforms". In general, representatives of the voluntary sector have enthusiastically sought to jump on the social capital "bandwagon" in New Zealand since it allows them to call for a transformation of vertical funder-provider relationships into horizontal partnerships with public agencies that allow them to have a greater "voice" in policy development.

These specific concerns about the impact of the New Zealand model on social capital would seem to reflect a broader concern that a strategy of strengthening policy leadership may eventually be pushed beyond the point at which it starts to weaken democratic institutions. The New Zealand reformers have typically gone to extreme lengths to avoid consultation with groups affected by reforms. Their rationale has been that consultation simply gives these groups the opportunity to capture the reform process and render it incoherent. Their exclusive approach to policy reform may, however, have simply "mined" the social capital that had been historically formed in a country that "strongly values political participation and had traditionally made policy in a consultative manner" (Goldfinch, 1998, p. 179). Various writers have pointed out that this may have contributed to electoral instability and radical constitutional change in a way that has limited further economic policy change[13].

In a fledgeling democracy such as South Africa where the promotion of social cohesion and the legitimation of state institutions is such an urgent priority, the possibility that reforms designed to strengthen top-down policy leadership may actually undermine these goals by hindering the bottom-up development of social capital should be sufficient to cast serious doubts about their appropriateness. Some recommendations with regard to the direction in which South Africa should attempt to reform its public administration need to considered by way of conclusion to this paper.

CONCLUSION

This paper has essentially argued that while the New Zealand model may offer a coherent and comprehensive package of contractual solutions to pervasive problems of government failure, the logic of its hard-edged contractualism may hinder the development of the social capital required to enhance the state's capacity in areas where a bottom-up approach to policy implementation is required. What other models, then, can reformers draw on to enhance administrative capacity in South Africa? Peters (1996) suggests that in addition to the "market model for reforming government" which has been followed in New Zealand, there are, at least, four other distinct visions of governance: the "old time religion" of PPA; and newer models of the "participatory state"; "flexible government" and "deregulated government".

[13] In 1990 the Labour government lost the election in a landslide to a National party that seemed to promise a move away from its reformist policies (Vowles and Aimer, 1993). However, after National pursued the neo-liberal reform programme with even greater zeal, it found its support evaporate and its large majority slip to just one seat in 1993. More significantly, this election saw the endorsement of a shift from plurality voting to a German -style mixed member proportional representation system, despite the change being opposed both by leading politicians and a well-resourced advertising campaign financed largely by big business. As Mulgan (1997) points out, such radical constitutional

We would suggest that an appropriate strategy of administrative reform in South Africa should combine a mix of "old" and "new". We would endorse Schick's view that "significant progress can be made through a logical sequence of steps that diminish the scope of informality while building managerial capacity, confidence and experience" (1998, p.129). There would still seem to be considerable scope in South Africa to fill in the gaps of the type of rule-based system of external controls that is associated with PPA. As Schick (1998, p. 130) puts it:

> Politicians and officials must concentrate on the basic process of public management. They must be able to control inputs before they are called upon to control outputs; they must be able to account for cash before they are asked to account for cost; they must abide by uniform rules before they are authorized to make their own rules; they must operate in integrated, centralized departments before being authorized to go it alone in autonomous agencies.

In those areas where these basics have been mastered, there may be scope to shift from systems of external to internal control so that managers can be given broader discretion as the focus shifts from "ex ante control to ex post audit, from control of individual actions to control within a broad band, from reviewing specific actions to reviewing systems" (Schick, 1998, p.131).

Within a system of internal control there would seem to be scope for both New Zealand style contractualism and a social capital-based style of catalytic, participatory governance. The relative appropriateness of the two models would depend on whether conditions favor the application of a top-down or bottom-up approach to enhancing implementation capacity. In those policy areas where policy formation, funding and service delivery can be undertaken by separate agencies operating within a vertical line of accountability, a top-down, contractualist approach may strengthen accountability and reduce the scope for agency failure. However, in those areas where multiple agencies, community groups and non-government organizations need to work together to solve common problems, the development of networks of civil engagement bound together by trust and reciprocity should be a priority. To play a catalytic role in forming these networks government officials do not just need to have a reputation for financial probity. They also need to exercise

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chnage typically occurs only after severe stress following wars or revolutions and is normally evidence of a breakdown in political legitimacy.

democratic leadership skills to bring isolated, conflicting groups together in a way that fosters social cohesion.

While the Ncholo report would seem to advocate an incoherent blend of the traditional, market and participatory models of governance, we would suggest that this eclecticism is appropriate. The task of diagnosis would, however, seem to be easier than the more difficult task of strengthening administrative capacity in a way that balances the need to contain government failure against the need to develop social capital.

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