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by

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# **A Comparative Examination Of Cultural Change Within The Australian And New Zealand Treasuries**

**Joe Wallis and Brian Dollery\*\***

## **Abstract**

Manifold similarities between Australia and New Zealand provide social scientists with unique opportunities for comparative analyses of the two countries. In this paper, we attempt to explain cultural change within their respective Treasuries in terms of their secretaries' use of agenda-setting, strategic recruitment and “expression games”. A different institutional context allowed the New Zealand Treasury (NZT) to exercise a more dominant influence than the Australian Treasury (AT), although the Post-War hegemony of a market failure paradigm meant that it was deeply influential in both agencies. The erosion of the authority of this paradigm in the 1980s induced significant “cultural re-invention” in both Treasuries as they aligned themselves with reformists committed to policies derived from the government failure paradigm. The stronger reaction to the alignment of the more dominant NZT has placed it under more pressure than the AT to reinvent itself again in the 1990s.

**Key Words:** Agenda-setting; cultural re-invention; economic reform; expression games; trust.

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In a somewhat unusual observation for a high-ranking public servant, Alan Bollard, the Secretary of the New Zealand Treasury (NZT), recently noted that “culture is something that is quite big in Treasury” so that “if you're trying to change Treasury you're trying to change the culture as well”, before adding dryly “and I am trying to change Treasury and change culture” (Laugesen and Maling, 2001, p.23). In this paper, we attempt to elaborate on Secretary Bollard’s insights in an attempt to explain the cultural changes that have occurred in the NZT and its Australian counterpart during the significant economic policy reform episode both countries experienced in the late 1980s and early 1990s.

The paper itself is divided into six main sections. Drawing on our earlier work on cultural change in economic control agencies in New Zealand (Wallis and Dollery, 2001), the first section advances some general propositions about how the secretaries and senior officials in economic control agencies can exercise organizational leadership to shape their respective agency cultures. The second part of the paper seeks to compare the institutional contexts within which the New Zealand Treasury and Australian Treasury (AT) operate. Moreover, it attempts to explain why the NZT tends to play a more dominant role than its Australian counterpart in the policy formulation and implementation process. Section three contemplates the manner in which the Post-War hegemony of the market failure policy paradigm led the secretaries of both agencies to preserve what may be termed a "culture of balanced evaluation". The fourth part of the paper considers how the NZT had to reinvent itself in the early 1980s in order to contribute to the supply of the "strong leadership" required to effect paradigmatic policy change while section five examines an analogous metamorphosis within the AT. The paper ends in section six by considering why the NZT is under more pressure than the AT to reinvent itself again in response to an accumulation of threats to its authority in the 1990s.

## **A THEORY OF CULTURAL CHANGE WITHIN CONTROL AGENCIES**

In their attempts to account for the observed conduct of public bureaux, economists have extended their standard model of rational behavior to these entities on the assumption that the maximand of bureaucratic activity can be characterized by budget maximization (Niskanen, 1971). It is thus somewhat surprising that, as bastions of so-called "economic rationalism", the NZT and AT have not turned the laser edge of their attention to the behavior of their own officials on the maxim of "physician heal thyself". One reason may be that the budget-maximizing models economists use to analyze the behavior of bureaucrats in the policy process may not be particularly relevant to control agencies in a Westminster constitutional setting (see, for instance, Migue and Belanger (1974), Breton and Wintrobe (1982), and Dunleavy (1991)). Indeed, there is some empirical evidence to suggest that this is the case in the Australian milieu (Dollery and Hamburger, 1996). According to this view, senior officials who work for control agencies may be more motivated to contain spending across departments rather than to engage in empire-building budgetary expansion within departments. This may be because they are typically subject to at least part of the blame for budgetary "over-runs" and for the consequent failure of governments to sustain prudent fiscal policies.

Thus Dunleavy's (1991) "bureau-shaping" model may be more relevant for analyzing the behavior of officials in powerful control agencies, such as the NZT and AT, that have the capacity to influence bureau behavior throughout the public sector. The bureau-shaping model assumes that bureaucrats pursue their objectives mainly on a personal level by pursuing promotion paths that are likely to optimize career success in given bureaucratic organizations. Moreover, they will also seek to determine the nature of the organization within which they work so as to maximize their own utility. Dunleavy (1991) identifies five ways in which bureaucrats can pursue this type of rational "bureau-shaping": They can launch or support organizational restructuring; they can transform

work practices within the organization; they can redefine relationships with actors outside the organization; they may encourage competition with other government agencies; and finally, they can contract out low level and tedious work.

It is thus evident that Dunleavy's bureau-shaping model can explain why jobs in agencies like the NZT and AT may be highly prized by professional civil servants. It is thus likely that their staff will consist of individuals who have been highly motivated to seek such jobs and who also have a strong incentive to retain them by conforming to the prevailing organizational culture. However, both the empire-building and bureau-shaping models tend to neglect the potential for agency failure in the relationship between bureau heads and their subordinate officials. The question thus arises: How do bureau heads overcome agency failure and induce their staff to commit themselves to the advancement of shared goals? Wallis and Dollery (1999) have followed Casson (1991) in arguing that by exercising effective organizational "leadership" these actors may save some of the transactions costs involved in negotiating, enforcing and monitoring contracts designed to limit agency failure.

In essence, we propose that the key elements of both bureau-shaping and agency-theoretic leadership models may be combined to derive the basic proposition that will be advanced in this paper: that is, the essential leadership task of the head of a control agency, such as the NZT or AT, is to shape its culture to achieve a target level of influence over the policy process. One way of explaining the manner in which the secretary of an economic control agency can influence agency culture is to focus on the actual tasks tackled by its officers in the discharge of their duties and especially in their interactions with each other and policy actors from other organizations whilst formulating, implementing and evaluating policies. Heclo (1974, p. 305) has characterized the crux of these policy exertions as "collective puzzlement".

It is possible to identify at least two conduits through which a control agency secretary can attempt to manipulate and shape agency culture. In the first instance, the

well-known process of “agenda-setting” can act as a powerful tool in influencing agency behavior. Using this mechanism, it is relatively easy for an executive secretary to devise an agenda that not only arranges issues in some kind of hierarchical importance, but also divides agency officials into formal groups charged with determining agency opinions on specific policy questions. Following Taylor (1989), since “organizational identity” and “organizational culture” can be construed as synonymous concepts, agenda-setting ventures may be viewed as a culture-shaping activity because they bestow “identity” on bureaux by determining official agency positions on policy issues.

A second conduit available to control agency secretaries in their quests to shape organizational culture resides in what Goffman (1959) has termed “expression games”. These games structure the social environment within which agency officers enact “collective puzzlement”. Thus, in interactions between officials on contentious policy matters, individuals act as “senders” who impart attitudinal information to “receivers”, and thereby convey impressions of themselves. More specifically, interpretation of “political” expression by receivers will hinge on judgments concerning a sender’s commitments, motives, and values (Loury, 1994).

In terms of the logic of the Dunleavy (1991) model, it can be argued that agency officials will attempt to embellish their reputation within the organization by seeking to ensure that they transmit “politically correct” impressions in expression games. In this way they can enhance not only their income and career prospects, but also their potential entree to the formulation of critical policy positions. Organizational behavior of this kind can be fostered by secretaries and other senior officials by ensuring that agency promotion and recruitment procedures encourage agency personnel to adhere to the “official line”.

The impression imparted by senders to receivers in expression games will be evaluated from at least two perspectives. Firstly, conduct during collective puzzlement sessions will reveal the analytical abilities and other intellectual capacities of participants

in the sense of conveying information on the “competence” of individual officials. In the second place, expression games will also divulge information concerning the “trustworthiness” of agency officers by indicating the degree to which people identify with the “core beliefs” of the agency that encapsulate its perceptions on how best to pursue the “public interest” (Sabatier, 1991). In order to maximize the perception that they are trustworthy in terms of bureau norms of "political correctness", in expression games senders may practice “self-censorship” (Loury, 1994, p. 430) and employ favored “code” phrases that communicate implicit allegiance to the core values of the agency. However, if the expression games exceed some “threshold of physical density” (Collins, 1993), then participants may be sufficiently interpersonally aware of each other to sense any reduction in “emotional energy” and “preference falsification” that may arise when particular individuals lose faith in agency goals but nevertheless attempt to conceal their disillusionment for career reasons (Kuran, 1990). This may eventually raise questions about both the competence and trustworthiness of these individual officials.

The reputational attributes of individual officers will assume even greater significance within the broader policy “establishment” since perceived untrustworthiness or incompetence can severely damage the standing of people in dominant policy networks. Without due recognition for competence and trustworthiness in commanding policy networks, the career prospects of the civil servant concerned can be terminally harmed. Expression games may thus adopt the aspect of “repeatedness” which strategic game theorists contend is essential to maintain the necessary “commitment” (Kreps and Wilson, 1982).

If we accept these generic characteristics of control agency culture, then it seems clear that the bureau secretaries of the NZT and AT possess the capacity to effectively shape the organizational culture of their agencies and create core policy conformity amongst their staff that is congruent with the beliefs of wider business and political elites.

Nonetheless, despite the many similarities between the AT and the NZT, important institutional differences exist context which we must now consider.

### **A COMPARISON OF THE POLICY MAKING ROLE OF THE AT AND NZT**

Australia and New Zealand are excellent candidates for a cross-country comparison of policy making.(see, for instance, Bell (2002), Brennan and Castles (2002), Castles (1993) and Goldfinch (2000)) They enjoy close economic, political and cultural ties; they share a common colonial history; and they are English-speaking. Moreover, their policy makers tend to look to the United States and the United Kingdom for sources of new ideas - a tendency that has been strengthened by the fact that in recent decades many key policy actors in New Zealand and Australia are graduates of British or North American universities. Furthermore, there are considerable similarities in the New Zealand and Australian systems of government. Both countries operate under a Westminster constitutional structure that vests executive power with the Cabinet, whose members assume "collective responsibility" for the policy decisions. Traditionally, the "united front" cabinets present as a result of this convention and the exercise of strong party discipline, has allowed the executives in both countries to dominate Parliament in New Zealand and the House of Representatives in Australia. The existence of a Senate in Australia has meant that the ability of Cabinet to control the legislative process has historically been more limited than in New Zealand where there is a single legislative assembly, although the shift to a mixed member proportional representation system in 1996 has arguably strengthened the relative position of the legislative branch of government in New Zealand.

There is another significant difference in the institutional context within which policy is made in the two countries. Australia has a federal system of government whereas New Zealand is a unitary state. This means that, unlike their New Zealand counterparts, Australian policy makers have to consult and seek agreement with the



governments of the six states and two territories within their federation. However, Goldfinch (2000, p. 123) has observed that due to pronounced vertical fiscal imbalance in Australian federalism, the Commonwealth government can exert acute financial pressure on state and territory governments.

Despite these differences, there are nevertheless strong similarities between the Australian and New Zealand Treasuries. Both play an important role in economic policy-making since they both have the official function of being controller of the public finances. This places them at the “center of the administration” (Polaschek, 1958) so that their decisions and recommendations involve them in the "whole gamut of governmental activities"(Whitwell, 1986, p. 20).

The NZT is formally required to comment on all departmental submissions to the Cabinet that have economic implications. Since virtually every proposal presented to the Cabinet has some economic implications, this rule has allowed the NZT to have the “first word” in many Cabinet-level debates. This, in turn, has meant that the onus of making a particularly strong case is placed on any minister or department that presents a proposal without NZT endorsement. Moreover, while the Cabinet receives advice from other sources on economic issues, only the NZT has a comprehensive reporting role and maintains an interest in policy matters across the whole spectrum of government activity. In a similar, although less formal manner, the AT's central role in the policy formulation and implementation process gives it significant leverage in the coordination and assessment of funding for proposed projects (Goldfinch, 2000). Like the NZT, the AT enjoys a close relationship with a high ranking cabinet minister and is able to recruit a highly educated staff to develop a distinctive "Treasury line" based on a broad picture of the economy and to present itself as the elite of the public service, immune to capture from special interest groups.

However, the NZT does enjoy a far more dominant position in the policy process; the advice that it offers is not contested by other powerful bureaucracies as a matter of

course. By contrast, the AT competes directly with two other important agencies (Wanna, 2002) - the Department of Finance that was created in 1976 "partly to counter Treasury's power and provide different views on economic policy" (Goldfinch, 2000, p. 126) and the Department of Prime Minister and Cabinet (DPMC) whose "power can vary with the prime minister" (p. 128). Moreover, while the Reserve Bank of New Zealand has tended to specialise in the independent operation of monetary policy to achieve mandated inflation targets since the passage of the Reserve Bank Act of 1989, the Australian Reserve Bank pursued a broader range of objectives until 1993 and liased closely with the Secretary of the Treasury as it played an important role in supplying macroeconomic advice.

The significantly different approach New Zealand governments followed over the 1984-1993 reform episode with respect to seeking the advice of "line" departments and societal actors appear to have strengthened the dominance of the NZT compared to its Australian counterpart. This period saw a sharp break from the consultative tradition of New Zealand policy making. The Officials Committee on Economic Policy that provided the forum within which the NZT could consult with other government departments was discontinued while, with the notable exception of the New Zealand Business Roundtable, no peak business or labor association were given the access to the "inner circle" of Cabinet and Treasury policy makers that they had previously enjoyed. This seems to have illustrated the influence on New Zealand's policy elite of public choice theory with its emphasis on the threat of policy capture by budget-maximizing bureaucrats and other special interest groups.

By contrast, a more corporatist approach to policy making was followed in Australia over the overlapping period. Line departments and ministerial departments developed a policy advice capacity to a much greater degree than New Zealand. Under the successive Labor governments of Hawke and Keating, significant attempts were made to incorporate interest groups and functional associations into policy formation through

the Economic Planning Advisory Council. In addition, the Australian Council of Trade Unions exerted considerable influence on economic policy through its formal role in negotiating with the government a number of wage agreements known as the "Accord" as well as through the close ties that existed between its members and the Labor government, in general, and between its Secretary, Bill Kelty, and successive Labor prime ministers, Bob Hawke and Paul Keating, in particular.

In general, while the NZT is similar to the AT, the policy advice it presented Cabinet was not subject to anything like the same degree of potential contestability. In view of its dominant position, the puzzle is not so much why its successive secretaries sought to maintain and preserve a culture that was similar to that of the AT right up to the early 1980s. Rather, it is even more puzzling to consider why they sought to reinvent its culture at the end of this period. This was a risky transformation to undertake for the NZT since it could threaten the dominant position the NZT had enjoyed as a result of the stable relationship of trust it was able to sustain with the "passing parade" of elected governments. The common elements of the culture the NZT and AT sought to preserve in the Post-War period need to be considered before we can consider the cultural changes they have undergone during the last two decades.

### **PRESERVING AGENCY CULTURE UNDER A STABLE PARADIGM**

The nature of the interaction between the AT and the NZT and their respective political masters in the Post-1945 era can most aptly be depicted in terms of a fiduciary principal-agent model (Martin, 1991). In common with all such agency relationships, asymmetrical information was present, with permanent, professional bureaucrats much better acquainted with complex processes of policy formulation, implementation and evaluation than their transitory, untrained political counterparts. Despite these informational asymmetries, and the potential they presented to public servants for exploitative

opportunistic behavior, control agency officials appear not to have exercised this potential in order to obtain and then retain the trust of their political principals.

Trust seems to have sprung from two main sources. In the first place, the Minister in question presumed the absolute loyalty of professional policy advisors until evidence to the contrary emerged. Secondly, and perhaps more importantly, politicians and bureaucrats held shared expectations of the appropriate role of policy advisors in a Westminster system: that is, career officials are obliged to provide free, frank and expert advice to elected governments of all political persuasions. March and Olsen (1989, p.23) have characterized the anticipated conduct of policy advisors as controlled by a “logic of appropriateness associated with obligatory action” rather than by a “logic of consequentiality associated with anticipatory choice”.

The shared understanding held by both political masters and their bureaucratic servants had profound implications for their relationship. It generated mutually agreed perceptions concerning the appropriate roles for control agency officials in the policy process. Moreover, it also provided core beliefs or dominant paradigm for the selection and socialization of new recruits, promotion policies within agencies, the structuring of expression games, and agenda-setting activity by executive secretaries.

In addition to a shared understanding over the appropriate role of the professional bureaucrat in the policy process, control agencies, like the AT and the NZT, also required a shared intellectual heritage to enable them to conceptualize economic policy formulation. Until the early 1980s, both the NZT and AT seem to have adhered closely to the market failure paradigm in microeconomics and the “Keynesian consensus” in macroeconomics. The notion of “market failure” can be traced back as least as far as *The Wealth of Nations*. Moreover, 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 Adam Smith’s “invisible hand” doctrine. The discovery of the conditions necessary for economic

efficiency led to the systematic identification of generic instances where markets “failed” to produce allocatively efficient results. The phenomenon of market failure thus provided the intellectual basis for government intervention in market economies.

However, there are substantial differences between the pristine intellectual edifice of contemporary welfare economics and the much more muddy and “rough and ready” application of this body of knowledge to real-world policy questions. Although acutely aware of the simplification process, control agency policy advisors are obliged to “filter” practical policy from abstract theoretical principles, involving inevitably the sifting out of ambiguities and qualifications characteristic of complex theoretical structures. In particular, policy advice offered to politicians will typically be presented so as to minimise any conceptual and empirical uncertainties flowing from the underlying paradigm that may generate doubts in the minds of action-orientated politicians (Peacock, 1979). Thus, notwithstanding theoretical reservations in conventional welfare economics associated with incremental interventionism before the 1970s centered on the theory of the second best and the (then) nascent government failure paradigm associated with incremental interventionism, both the AT and NZT continued to derive their policy advice from the dominant market failure paradigm.

In practice, rigid adherence to the market failure model meant that both the AT and the NZT tended to adopt a posture of conservative and reactive control in the policy process rather than a position of proactive leadership. Thus, putative answers to the actual and perceived instances of real-world market failure were generally developed and advocated by other public agencies. The respective Treasuries then evaluated these proposed solutions and examined their likely consequences. In so doing the AT and NZT acquired comprehensive reporting functions and acted as institutional “safeguards” in the policy formulation and implementation process. In this way, these control agencies formed a “bureaucratic brake” against the propensity of activist elected representatives, with a short-term time horizons, to propagate potentially ill-considered “solutions” to

economic and social problems without proper calculation of the costs of these policies (Wolf, 1979). In so doing, officers of the AT and NZT acquired reputations as safeguards on the public finances, charged with fiscal responsibility for gainsaying ill-conceived and extravagant policy proposals.

Successful discharge of this “watchdog” function required consistency and integrity on the part of AT and NZT bureaucrats: This, in turn, depended on the existence of a strong and distinctive organizational culture to guide the behavior of officials in the policy process. A strong, distinct culture needed to be established among these officials so that they could act in a mutually consistent way in fulfilling their control and advisory functions. In their efforts to foster and preserve this distinctive culture, the various secretaries of these control agencies attempted to develop and reinforce the trust bestowed on them, and the agencies they led, by other participants in the policy formulation process.

The nature of this culture has been characterized by the term “Whitehall norms” that oblige civil servants to provide “free and frank advice” in the “public interest” through a balanced consideration of the merits of a particular policy proposal. In his assessment of the meaning of the “public interest”, Martin (1997, pp. 382/3) has argued that the term “is a useful shorthand for a set of important process considerations” that include “a checklist of things to be taken into account in relation to any policy issue” such as “regard for the law; regard for the principles of natural justice; consideration of the long as well as the short term; acknowledgement of previous commitments; avoidance of both the substance and appearance of personal or agency interest”. But even within the guidelines generated by “Whitehall norms”, Treasury officials nevertheless had to rely on what has been called the “collective institutional memory” of their organizations to supplement these generic normative standards (Easton, 1997, p. 86). According to this writer, collective memory derives from the incrementalist accretion of precedent arising from historical decision-making within the agency. Where no specific and relevant precedent can be found,

Easton (1997) contends that there is nonetheless likely to have been some history of discussion on the issues involved.

Quite apart from establishing their trustworthiness through their commitment to Whitehall norms and their adherence to the collective memory of their agencies, Treasury officials must also demonstrate their competence in the application of advanced analytical techniques. Until the 1980s, technical virtuosity consisted overwhelmingly in displaying mastery of cost-benefit analysis as the primary means of screening policy proposals made by other participants in the policy process (Easton, 1997). However, cost-benefit analysis was hampered by the inherent difficulties of measuring many economic and social variables and thus fell within the overarching Whitehall culture since it involved a balanced judgment of costs and benefits not accessible to precise quantification.

Through their custodianship of an organizational culture that generated a shared understanding of Treasury control functions, as well as the rules and norms to governing the conduct of its officials, secretaries of the AT and NZT established an enduring and trusted identity for their agencies in their respective countries. However, it can be argued that the NZT seems to have enjoyed more success in this endeavor. By contrast, in the case of the AT, Weller (1989, p.74) maintains that the establishment of an institutional rival in the form of the Commonwealth Department of Finance in 1976 was "designed to break the monopoly of information that Treasury held, to provide alternative sources of economic advice, and to centralize the expenditure control function". It can thus be deduced that the NZT had "more to lose" given its predominant status within the policy community through potentially risky cultural transformation. We should therefore inquire into why the NZT embarked on a precarious quest to reinvent its culture and jeopardize its trusted organizational identity in the early 1980s when it had so much to lose?

## **THE REINVENTION OF THE NZT DURING THE REFORM EPISODE**

It has been cogently argued that explanatory power and associated dominance of the reigning Keynesian macroeconomic paradigm in the United Kingdom in the 1970s was corroded by the gradual accumulation of “anomalies”, such as the phenomenon of stagflation, and the concomitant reliance on “*ad hoc* experimentation” by policy makers, like anti-inflationary price and income policies (Hall, 1993). A comparable process occurred simultaneously in the two Australasian nations (Evans, Grimes, Wilkinson, and Teece, 1996). However, the sharp erosion of the microeconomic market failure paradigm and its neglect of “government failure” attendant upon piecemeal, incremental interventions to correct perceived instances of "market failure", sometimes called “derived externalities” (Wolf, 1989), was even more striking than the disillusionment with Keynesian macroeconomics. Exponents of the nascent theory of public choice argued that the rapid growth of government expenditure and the resulting problems of pervasive price distortions, unemployment and rising tax and debt burdens could be attributed, at least in part, to this neglect by market failure theorists (Wallis and Dollery, 1999). Moreover, the coherence of the market failure fell foul of the "theory of second best" (Lipsey and Lancaster, 1956) in those cases where new forms of state intervention were introduced to correct the problems and distortions associated with existing interventions. This theoretical perspective served to emphasize the thorny problems of piecemeal interventionism by establishing the conditions under which a piecemeal correction of an instance of market failure may move an economic system, where imperfections are evident in more than one sector, even further away from a constrained global optimum.

It has been observed that the breakdown and erosion of the intellectual dominance of a reigning paradigm is likely to eventually lead to a stage of "fragmentation" during which policy participants engage in an active search for alternative theoretical structures (Hall, 1993). Moreover, Gersick (1991) has postulated that emotional unease and



puzzlement seem to be experienced by members of a policy community when this occurs. Similarly, Hall (1993, p.280) has added that the sensation of "puzzlement at the top" could be aggravated by the incommensurability of the different and competing paradigms that are advanced. In these circumstances, perplexed policy makers seek certainty from radical reformers who advocate alternative public policies predicated on new theoretical paradigms that appear both authoritative and coherent.

The rapidly developing and rival government failure policy paradigm seemed to embody both of these characteristics. In the first place, authority of the theory of government failure was enhanced by its adoption by highly credible international institutions, like the IMF, the World Bank and the OECD. Secondly, its coherence flowed from the manner in which it sought to limit and reduce government failure through a radical reform program with liberalization, stabilization and public sector reform as its capstones. Despite growing adherence to the government failure on the part of significant international agencies, the policy leadership necessary to redevelop policy in the image of the new paradigm nevertheless had to spring from domestic quarters. Moreover, this policy leadership could only be provided collectively by an "advocacy coalition" with decisive influence on the policy process (Sabatier, 1991). Advocacy coalitions of this kind would succeed only when the new dominant paradigm was so thoroughly institutionalized that its rules and operating routines formed the basis of Treasury behavior.

One way of explaining the realignment of the NZT from its traditional "non-aligned" stance to an active member of the advocacy coalition advancing a government failure paradigm in New Zealand is to consider the lessons it may have drawn from the experience of its British counterpart. In essence, the decay of the Keynesian macroeconomic policy paradigm in the mid-1970s and the failure of the British Treasury to recognize the paradigm shift from Keynesianism to monetarism meant that the Treasury lost its monopoly position in the policy formulation and implementation process

to radical elements within the Conservative Party (Hall, 1993). Consequently, when the Conservatives assumed power under Mrs Thatcher in 1979, the monetarist paradigm became the institutional template for policy design to the chagrin of a weakened Treasury.

The leadership cadre of the NZT seems to have sought to avoid the fate of their British brethren by preemptively joining the advocacy coalition propagating a paradigm shift from the established, but ailing market failure model to the new government failure perspective in New Zealand in the early 1980s (Easton, 1997). This change in theoretical direction was signaled in a series of briefing papers to incoming governments after 1984 thus constructing the blueprint for the subsequent “New Zealand experiment” in drastic economic policy reform.

The shift to the government failure paradigm involved far more than a simple change in policy orientation: It heralded a new dawn in the manner in which the NZT exercised its agenda-setting power. By effectively determining the broad framework for policy debate in New Zealand, the NZT was able to define the terms of the policy formulation process and reject policy proposals that fell outside the received wisdom of the government failure model (Boston, 1989). In this way the NZT not only determined the reform agenda, but also generated a great deal of the reform policies themselves. In a single dramatic metamorphosis, the NZT thus escaped blame for earlier economic ills associated with the debunked market failure paradigm and developed a reputation for incisive policy leadership by advocating rather than opposing change. In a nutshell, the NZT had successfully reinvented itself and its advisory role.

In line with its new advocacy capacity in the policy process, the NZT introduced corresponding changes in its internal procedures. Instead of entrusting officials to make balanced assessments of policy proposals based on benefits and costs, it now encouraged officers to develop reform measures congruent with the government failure paradigm. This meant a significant move from policy evaluation to ensuring that new policies were

only adopted if they meshed with the core principles of the governing policy framework. This shift in direction was facilitated by a 1985 overhaul of the machinery through which Cabinet received policy advice, with a Cabinet Policy Committee established to ensure the coherence of all policy (Kelsey, 1995). Because the Committee was advised by the NZT, its officers performed a "gatekeeper function" censoring policy advice outside the government failure paradigm (Boston, 1991).

Organizational culture within the NZT also underwent a drastic metamorphosis during the 1980s. Staff turnover rose rapidly and replacements were drawn from inexperienced university graduates with a resultant loss of "collective memory" at the NZT (Easton, 1997). Expression games and interaction rituals were transformed to generate commitment to the government failure model and trust could only be built by advancing the policy principles embedded in this paradigm. This ensured not only the loyalty of existing officials, but also acted as a selection mechanism for attracting new staff subscribing to the same policy quest (Wallis and Dollery, 1999).

The ideological sense of mission developed in the NZT soon resonated with like-minded people in the broader policy community in New Zealand and relationships of trust grew up with key business and political leaders. The central figures in the advocacy coalition that revolved around the NZT after 1984 consisted primarily of senior civil servants in other control agencies, like the Reserve Bank and the State Services Commission, reformist politicians in both Labour and National cabinets, especially Roger Douglas (Labour administration Finance Minister from 1984 to 1988) and Ruth Richardson (National government Finance Minister from 1990 to 1993), and the New Zealand Business Roundtable (NZBR) representing some of the largest corporations (Easton, 1997). These alignments enhanced the control the NZT exercised and enabled it to effectively propagate policies congruent with the government failure paradigm.

Several scholars have already examined the "blitzkrieg" manner in which reform policies developed by the NZT were rammed through the legislative process and enacted

into law (Wallis and Dollery, 2001). However, the clear relationship between the NZT and the reformist advocacy coalition exposed the NZT to a series of challenges to its authority in the policy process and these problems of legitimacy will be tackled in the conclusion to this paper. But we now need to explore the extent to which the AT pursued an analogous cultural transformation.

### **CULTURAL CHANGE AT THE AT DURING THE REFORM EPISODE**

The Australian institutional experience was remarkably similar to its New Zealand counterpart, although the impact of the transformation of the AT appears to have been less marked as a consequence of the bicameral structure of the Australian Commonwealth Parliament, the comparatively decentralized nature of economic policy formulation and implementation in a federal state, and the more numerous sources of competing policy advice available to the Cabinet. In common with their colleagues in academia and the private sector, AT economists seem also to have been profoundly influenced by the breakdown of the Keynesian policy in the 1970s. Whitwell (1986, p.263) has observed that "the shift in the department's philosophy was of course not unique: in very broad terms something parallel occurred within the economics profession, in Australia and abroad". Nevertheless, in common with the NZT, AT officials appear to have deliberately pioneered the change in policy paradigms in Australia since "the Treasury took the lead in the 1970s in propagating the neoclassical faith" (Whitwell, 1986, p.264). Trenchant Secretary of the Treasury and committed advocate of neoclassical economics, John Stone, seems to have played a pivotal role in this process. This appears to have set the stage for the emergence of a new consensus on the applicability of the government failure paradigm and allowed AT policy advisers to capture the agenda in policy debates within the Australian Public Service and beyond.

When the incoming Labor government arrived in Canberra in 1983 it had to establish its economic credibility to a business community already persuaded by a

doctrine of public expenditure constraint and deregulatory policies. The scene had been set for a dramatic transformation of federal government policy in Australia. Langmore and Quiggin (1994) have identified a number of institutional factors that influenced the subsequent success of the government failure paradigm in policy formulation under the Hawke Labor government. For example, they argue that the dominant positions of the AT and its allies in the Department of Finance and the Department of Prime Minister and Cabinet facilitated the use of several "manipulative devices". These included the resort to obfuscatory language in the presentation of complex economic arguments, the practice of scheduling expenditure considerations first in the federal budget preparation process, the restricting of discussion of revenue to a small Cabinet sub-committee, the withholding of information from the Cabinet, and deliberately circulating Cabinet submissions late to prevent critical scrutiny. Similarly, the appointment of the inexperienced and ill-educated Paul Keating as Treasurer immediately after the 1983 election made him not only reliant on AT advice for his political survival, but also appears to have made him particularly pliant in adopting the AT policy paradigm. Moreover, Keating's advocacy and debating skills made him "the best salesman they ever had" (Langmore and Quiggin, 1994, p.235).

Other scholars have argued that the ascendancy of "economic rationalism" in the AT in particular, and the federal bureaucracy in general, may be ascribed to the intellectual training (in formal economics) and socioeconomic background of the Senior Executive Service (SES). In a controversial book, Michael Pusey (1991) presented the results of an opinion survey of 215 SES executives that purported to demonstrate a marked preference for "economic rationalism" or the government failure paradigm in policy formulation. If Pusey is indeed correct, then a process of organizational cultural transformation similar to the New Zealand experience must have occurred<sup>1</sup>. Moreover,

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younger bureaucrats would no doubt have perceived career advantage in investing human capital in the government failure model. It with thus seem that the New Zealand experience was indeed replicated in Australia, subject to the institutional caveats concerning the nature of public policy formulation in Australia outlined earlier. The fact that the reform process was less radical and less rapid in Australia appears to support this proposition.

### **CONCLUDING REMARKS**

The main thesis of this paper resides in the proposition that the cultural re-invention undertaken by the NZT during the 1980s exposed it to a greater risk than its Australian counterpart since its more dominant position in its policy community meant that there would be a stronger reaction to its alignment with a particular advocacy coalition. Threats to the authority of the new “aligned” NZT have tended to accumulate since 1988. In the first place, it was inevitable that under both Labour and National governments the Cabinet would eventually have to respond to pragmatic concerns that reform was proceeding too far and too fast in one direction. A second threat to NZT authority arose from the vigorous public reaction to the perception that a technocratic elite was propagating radical reform proposals without regard to wider public opinion - a perception reflected in the resounding referendum vote to change to a mixed member proportional representation system in 1993. This made the “capture” of the policy process much more difficult after 1996 since mainly "coalition" or "minority" governments would have to negotiate policy proposals with a wider policy community. Under the influence of Putnam (1993), a third threat arose from heightened fears about the negative impact of radical restructuring on "social cohesion" in New Zealand. Finally, the "Third Way" approach followed by Blair government in Britain and the Clinton administration in the US seems to have decisively influenced Labour Party thinking. This may be viewed as a

reaction to the "strong" style of policy leadership that had dominated policy making in the previous decade (Little, 1998).

The election of a Labour-dominated government in New Zealand in 1999 committed to a "Third Way" policy posture thus constituted a significant threat to the authority of the NZT in the policy arena. Quite apart from a distinct and overt lack of sympathy from the incoming Finance Minister Michael Cullen, the potential for a substantial shift in the "locus of authority" from the NZT to the Department of Social Policy occurred when the latter agency sought to become a policy "super-ministry" with the capacity to contest the policy advice offered by the NZT (Laugesen and Maling, 2001). The NZT was thus presented with a stark choice between revising its dominant policy paradigm to accommodate "Third Way" thinking or seeing its monopoly of the policy process eclipsed.

It would seem that NZT Secretary Bollard opted for the former strategy by deliberately fostering another "re-invention" of the NZT in the face of these cumulative threats to its authority (Laugesen and Maling, 2001). Tactical initiatives included the employment of older officers, encouragement of collaborative relationships with other government departments, and an emphasis on the importance of social cohesion and social capital in policy making (New Zealand Treasury, 2001).

Although the AT went through similar cultural changes to the NZT in the 1980s in response to the shift from a market failure paradigm to a government failure model, it has not come under the same pressure to reinvent itself in the 1990s in response to what seems to be a reaction to a particular leadership style rather than a paradigmatic (as compared to incremental) shift in policy direction. Perhaps this is a reflection of the more appreciative (or "Third Way") style of policy leadership its successive Labor administrations exercised during the reformist episode of the 1980s. Perhaps, too, it is a reflection of the fact that the institutional balances to AT influence within the Australian policy process mean that its alignment with a particular advocacy coalition is less

threatening to other policy actors. Could it be that the New Zealand policy process is undergoing a transition to a more contestable system of policy advice within which an "aligned" NZT can function without periodic challenges to its authority?

### NOTES

1. For a critical view of the Pusey thesis and its empirical problems, see Dollery and Hamburger (1996).

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