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**POLICY FORMULATION AND CULTURAL RE-INVENTION
WITHIN THE NEW ZEALAND TREASURY**

by

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Treasury

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Abstract

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

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Policy Formulation and Cultural Re-Invention Within the New Zealand Treasury

This paper will attempt to explain the cultural changes that have occurred in the New Zealand Treasury (NZT) over the last two decades in terms of a framework derived from Hall's (1993) theory of "policy paradigms". The NZT has long been recognized as the dominant institutional source of policy advice in New Zealand (Boston, 1996). This ascendant position appears to arise not only because its official function of being the controller of the public finances places it at the "centre of the administration" so that "its financial decisions and recommendations pervade every aspect of government activity" (Polaschek, 1958, p.252). It also exists because the NZT is formally required to comment on all departmental submissions to the Cabinet that have economic implicationsⁱ. Since virtually every proposal presented to the New Zealand 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 for any policy proposal is placed on any minister or department that presents a proposal without NZT endorsement. Moreover, while the Cabinet receives advice from other sources on economic issues, only the NZT has a comprehensive reporting role and maintains an interest in policy matters across the whole spectrum of government activity. The NZT thus differs from its counterparts in many other countries, including the United States, the United Kingdom and Australia since the advice it offers is not contested routinely by equally powerful bureaucratic rivals.

But why should cultural changes in this institution be of interest to a wider audience? A major reason would be that the NZT has been recognized by most commentators as being a key actor in the policy making processes that surrounded the implementation of the "New Zealand experiment" in structural reform and macroeconomic stabilization between 1984 and 1993 (Bollard and Mayes, 1993; Bollard, 1994; Evans, *et. al.* 1986; Kelsey, 1995; Massey, 1995; Easton, 1997; Wallis, 1997; Wallis and Dollery, 1999). This "experiment" attracted enormous international interest during (and for some few years after) this period. It was hailed by institutions such as the World Bank, *The Economist* and the OECD as a model for the rest of the world. Furthermore, retired "technopols", like Roger Douglas and Ruth Richardson (finance ministers in the successive Labour and National governments that implemented the reforms), found that, for a while at least, their advice was highly sought after by countries that were facing the challenge of structural adjustment. This level of interest in the New Zealand case may seem somewhat surprising since many other countries were, during the same period, advancing similar processes of "liberalization" and "stabilization"ⁱⁱ to reflect their broad endorsement of the "Washington consensus" on an appropriate economic strategy (Rodrik, 1996). However, many scholars cite a number of factors that combined to make the New Zealand case of special significanceⁱⁱⁱ.

This paper will nevertheless focus on the way the "New Zealand experiment" comes close to the "ideal type" of a "paradigmatic policy change". The then New Zealand government advanced reforms that sought to both limit the scope for government failure in the form of rent-seeking, agency capture, bureaucratic empire-building and "populist" interference in the setting of monetary and fiscal policy as well as, through the

"New Zealand model" of New Public Management, attempting to reduce government failure in residual areas of public sector activity. It may thus be viewed as a concerted attack on pervasive problems of government failure and a radical break from a policy paradigm that rationalized interventionist policies as piecemeal, incremental solutions to perceived problems of market failure. The 1984-1993 reform episode in New Zealand thus marked a "punctuated equilibrium" in a pattern of policy development characterized by long periods of stability involving incremental adaptations to policy that alternate with brief periods of "qualitative, metamorphic change" or revolutionary upheaval (Gersick, 1991). The observed shift from a "market failure paradigm" (MFP) to a "government failure paradigm" (GFP) reflected a "third order" change in the hierarchy of policy goals and the overarching terms of policy discourse (Hall, 1993). This order of policy change can be distinguished from the "second order" changes in policy instruments and "first order" adjustments in the settings of these instruments that can occur during periods of paradigm stability.

This paper will examine how the NZT had to reinvent itself in the early 1980s so that it could contribute to the supply of the "strong leadership" required to advance this third order shift in policy paradigms. It will also consider how it is currently undergoing another reinvention process to maintain its influence in the face of the contemporary reaction to the social consequences of liberalization and stabilization and the strong leadership style that was used to advance them. This "backlash" would seem to lie behind the quest for a more flexible approach to policy development and a more "appreciative" leadership style in New Zealand and other countries that have embraced the so-called "Third Way". However, before consideration can be given to reinvention

processes at the NZT, some general propositions must be advanced about the essential function of organizational leadership in a central control agency.

I. Organizational Leadership in a Control Agency

Over the last two decades the NZTs official understanding of government organizations appears to have been shaped by public choice theoretic accounts of bureaucratic behaviour (see, for instance, Niskanen, 1971; Breton and Wintrobe, 1974; and Migue and Berlangier, 1974). From this perspective senior bureaucrats are viewed as being primarily interested in maximizing the budgets of their agencies since they associate larger budgets with greater status and income. Even if it is accepted that such “economic rationalism” represents a useful approach to modeling the behaviour of government actors, these “empire-building” models do raise a number of questions.

Bureau-shaping Versus Empire-building. Firstly, is budget-maximizing a justifiable assumption to make about the objective functions of these bureaucrats? Marsh *et. al.* (2000) have suggested that there is more theoretical and empirical support for Dunleavy’s (1991) “bureau-shaping” model. In essence, Dunleavy (1991, p.202) basically contends that bureaucrats pursue their objectives mainly “at the individual level, searching for career or promotion paths which lead them into an appropriate rank in a suitable sort of agency”. However, they will also seek to shape the nature of the organization in which they work so as to maximize their utility. He identifies five ways in which they 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 they can “hive off” or contract out low level and tedious work.

Dunleavy’s bureau-shaping model would certainly seem to be more relevant to an analysis of the behaviour of senior officials within a control agency such as the NZT or the Australian Treasury than a Niskanen-type budget-maximizing model (Dollery and Hamburger, 1996). In recent decades these officials have generally seemed to be more motivated to contain spending across departments rather than to engage in “empire-building” budget expansion within departments. This may be because they are typically subject to at least part of the blame for budgetary “blowouts” and for the failure of governments to sustain prudent fiscal policies. Moreover, powerful control agencies, like the NZT, have the capacity to shape bureau behaviour throughout the public sector. Dunleavy’s model would appear to explain why jobs in such an agency are highly prized. It is likely that its staff will consist of individuals who have been highly motivated to seek such jobs and who also have a strong incentive to retain them by conforming to the prevailing organizational culture.

Leadership as a Solution to Agency Failure. A second question raised by empire-building models arises from their neglect of the potential for agency failure in the relationship between bureau heads and their subordinates. 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.

The Culture-shaping Role of the Heads of Control Agencies. 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: The essential leadership task of the head of a control agency is to shape its culture to achieve a target level of influence over the policy process. This proposition can be elaborated in two steps. The first stage will be examined in the remainder of this section. It will consider how the head of a control agency, like the NZT, can develop and maintain a distinct culture among those staff members who engage in the agenda-setting, formulation and evaluation stages of the policy-making cycle. The second step will be elaborated in the remaining sections of this paper. With specific reference to the NZT, it will seek to explain why NZT secretaries have generally sought to preserve a distinctive culture over a relatively long period of paradigm hegemony but, in recent decades, have also sought to reinvent its culture in anticipation of a shift in the “locus of authority” to a new dominant paradigm.

To explain how the culture of a control agency can be shaped by its head, it is necessary to consider the typical activities its officials engage in when they interact with one another and with policy actors outside their organization during those phases of the policy cycle that involve defining problems, formulating proposals, evaluating and deriving “lessons” from policy implementation. According to Hecl (1974), these activities can often take the form of “puzzling”. He argued that “politics finds its sources

not only in power but also in uncertainty - men collectively wondering what to do . . . Governments not only 'power' . . . they also puzzle. Policy-making is a form of collective puzzlement on society's behalf" (1974, pp. 305-6).

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

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

Dunleavy’s bureau-shaping model suggests that the agency staff members who engage in such games can be conceived as seeking to maximize their reputation within the agency and with its head since this will not only affect their income and career prospects, but also their access to interesting and challenging work opportunities. They

will therefore be concerned with the effect the impression they convey in such games has on their reputations.

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

To assess trustworthiness in these terms receivers may scrutinize the statements of senders for their "political correctness". If they are aware of this, senders may attempt to pass a threshold of acceptance by using "code" words or phrases that signal their allegiance to the core beliefs of the agency. This also suggests that they may practice what Loury calls "self-censorship". This is because "members whose beliefs are sound but who nevertheless differ from some aspect of communal wisdom are compelled by a fear of ostracism to avoid the candid expression of their opinions" (Loury, 1994, p.430). However, if the expression games pass what Collins (1993) termed "thresholds of physical density", participants may be close enough to one another for a sufficient length of time to detect the fall off in "emotional energy" that such avoidance or "preference falsification" (Kuran, 1990) can unavoidably produce. The repeated failure by an official to engage in expression games with an intensity that is "empirically visible, both in behaviour (especially nonverbal expressions and postures) and in physiology" (Collins, 1993, p.211) may eventually cause questions to be raised about both their competence and trustworthiness.

These aspects of their reputation will be of even greater concern if the agency is embedded in a relationship of trust with an elite “establishment”. Whatever impression of incompetence or untrustworthiness they may leave through their engagement in expression games as agency staff members may also affect the opportunities that their reputation within this broader social network can give them access to. These expression games can therefore assume the qualities of “repeatedness” that strategic game theorists, such as Kreps and Wilson (1982), hold to be necessary to maintain “commitment”. The head of a control agency, like the NZT, may thus have the capacity to induce its staff to conform to a particularly dominant and distinct culture since this agency has such strong and enduring links with New Zealand’s political and business leaders. In effect, it is a key member of New Zealand’s policy elite; a pillar of its “establishment”.

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

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

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

short-term and opportunistic exploitation of these asymmetries by their need to retain the trust of these principals.

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

This understanding can operate at a number of levels. At the deepest level, it is an understanding of the appropriate role of the state in a mixed economy and therefore of the correct direction for any new policy initiative. In the case of the NZT this understanding provided the framework within which it came to an appreciation of what functions it was appropriate for it to perform within the system of government and what role it was appropriate for it to play within the policy process. This understanding gave rise to the core beliefs that its officials could be socialized into holding and that its head sought to protect through the expression games described in the previous section. They can be conceived as coming from a shared "paradigm"; that is, the common epistemological vision and value consensus of a knowledge-based community (Kuhn, 1962).

The Market Failure Paradigm and the Treasury's Reactive Control Role. In common with similar institutions in other English-speaking nations, the NZT appears to have operated within a market failure (MF) paradigm until the early 1980s. The intellectual authority for this paradigm derives from its roots in conventional welfare economics. It

should be pointed out, though, that the policy advisors who work within a particular paradigm often play a significant "brokering" role in distilling from it "core" principles to guide the practical formulation of policy proposals and their evaluation. This means that they typically screen out some of the subtleties, reservations and ambiguities that characterize the theoretical frameworks they draw upon. They do this to "package" their advice in a way that satisfies the taste for certainty of politicians who "being under pressure to act decisively and dramatically, will naturally be impatient with any manifestation of the philosophic doubts which plague economists and will risk making strong assumptions about the efficacy of the policy instruments which have been assigned to their control" (Peacock, 1979, p.231). Accordingly, despite the acknowledgement in normative economics prior to the 1970s of some of the second-best and government-failure problems associated with incremental interventionism, the dominant economic policy paradigm that institutions like the NZT constructed from it, ensured that the focus of the policy process was focused firmly on problems of market failure.

The appropriate advisory role for a control agency within a policy process that was primarily aimed at the generation of solutions to problems of market failure came to be one of reactive control rather than of proactive leadership. Solutions to the various problems of market failure would also be generated outside the NZT by other participants in the policy process. This means that while the appropriate role for this NZT was to ensure that the consequences of implementing these proposals were adequately considered. It should be clear, then, how it would be considered appropriate that the NZT should provide a report on all proposals with economic implications. By performing this function, the NZT could provide an institutional check against the propensity of activist politicians, with a short time horizon, to generate solutions to problems without adequate consideration of the costs of implementing them (Wolf, 1979). In fulfilling this obligation NZT officials acquired the reputation of being "abominable no-men" (Easton, 1997, p.99). However, someone, somewhere in the system, needed to be able to say "no"

and so it seemed entirely appropriate that as “watchdogs of the public purse”, the NZT officials should undertake this responsibility.

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

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

"The public interest is a useful shorthand for a set of important process considerations. These can be reflected in a checklist of things to be taken into account in relation to any policy issue, viz:

- regard for the law,
- regard for the principles of natural justice,
- consideration of the long as well as the short term,
- acknowledgement of previous commitments,
- avoidance of both the substance and appearance of personal or agency interest".

Within the boundaries supplied by “Whitehall norms”, NZT officials still had to draw on what Easton (1997, p.86) calls the “collective institutional memory” of the agency. This is “physically embodied in its files and archives, in the learned studies which it commissions or encourages, and in the individual memories of the officials (which are in turn reinforced by maintaining informal contacts with retired officials, with think-tanks,

and with people with expertise outside the ministry)". This collective memory would develop through an incremental process of precedent accretion. Even when situations arise for which no precedent has been established, there is nonetheless likely to have been some history of discussion about the issues relevant to these situations that can be drawn on to develop new precedents.

Cost-benefit Analysis. In addition to demonstrating their trustworthiness through their commitment to Whitehall norms and their respect for the collective memory of their agency, NZT officials also sought to demonstrate their competence through their mastery of analytical techniques. During the 1970s the rules they applied, wherever they could, to screen policy proposals generated outside the NZT were derived from the techniques of cost-benefit analysis (Easton, 1997). These rules not only specified a consistent methodology for calculating cost and benefit streams, but also required that a real discount rate of ten percent be applied in all cases. Cost-benefit analysis did seem to be consistent with the overarching Whitehall culture since it allowed a balanced assessment of costs and benefits. However, its range of application was limited by quantification difficulties that could vary from proposal to proposal. It did not preclude the more general features of balanced judgment making described by Martin (1991).

By sustaining a culture that reflected a shared understanding of the appropriateness of its own control functions and supplied rules and norms to govern the behaviour of its officials, secretaries of the NZT could both develop a collective memory that they could draw upon in exercising their judgments and establish a stable and trusted identity for the agency in the policy community. Consequently, advice provided by NZT officials could thus be trusted by policymakers. This was because it emerged from a framework of rules that generated an adequate assurance that they were not only competent in the application of reputable techniques, such as cost benefit analysis, but also reliable in the provision of the information about the costs, consequences and likely

trade-offs between conflicting goals and values required for balanced policy decision-making. Why then was it considered necessary to reinvent this culture and jeopardize this trusted organizational identity in the early 1980s?

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

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

According to Hall (1993) the breakdown and erosion of authority of a dominant paradigm is likely to eventually lead to a stage of "fragmentation" during which policy participants engage in an active search for alternatives. Gersick (1991) has pointed out that emotional discomfort, uncertainty and puzzlement are likely to be experienced by many policy makers during this phase. Moreover, Hall (1993) has argued the sense of "puzzlement at the top" is likely to be exacerbated by the incommensurability of the different paradigms that are pushed forward for consideration^v. Those policy makers who are genuinely puzzled may thus be predisposed, at these times, to look for leadership

from radical reformers who advocate the reconstruction of public policy on the basis of a new paradigm provided that the alternative paradigm is both coherent and authoritative.

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

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

Hall (1993, p.285) argues that with the breakdown of a Keynesian policy paradigm in Britain in the mid-1970s the “locus of authority” over macroeconomic issues began to shift away from its Treasury which “hitherto had enjoyed a virtual monopoly

over such matters". The shift from Keynesianism to monetarism was led by a faction within the British Conservative party whose cause was championed by a section of the British media. They were able to assume leadership of the Conservative party; when the Thatcher government took office in 1979, they were then able to institutionalize the monetarist paradigm^{vii}.

A group of senior officials in the NZT seem to have absorbed lessons from the British experience and sought to emulate it. In the early 1980s they attempted to preempt a shift in the locus of authority away from their institution by playing a leading role in the formulation of a new GF paradigm^{viii}. This new policy line was set out in a series of briefing papers to incoming governments after 1984 that provided the blueprint for the subsequent "New Zealand experiment" in comprehensive economic policy reform.

The Reinvention of the NZT. In directing the attention of the policy community toward problems of government failure, the senior officials who wrote these papers were effectively defining a new role for the NZT in the policy process. They essentially redefined its advisory role in a way that involved it exercising, to a greater degree than before, its agenda-setting capacity. It now became evident to observers, such as Boston (1989, p.133), that the NZT's power and influence had come to rest, above all, on its capacity to "set the broad philosophical or theoretical framework within which most policy options - certainly in the economic and social policy arenas - are formulated and determined." By doing so, the NZT was able to define the central questions for analysis, exclude certain issues from consideration, and reject policy solutions that did not conform to the new conventional wisdom. Moreover, the NZT did not just set the agenda for reform; it also generated the bulk of the reform proposals. It appears to have reinvented itself as a credible and legitimate source of policy leadership. Easton (1997, p.99) has described this as follows: "The role of Treasury changed. Suddenly the abominable no-men were saying yes. Instead of opposing proposals for change, they were

advocating them". Whereas the "old" Treasury might have been partly blamed for the economic "crisis" of the 1980s, the "new" Treasury could not be so implicated since it was demonstrably contributing to the policy leadership required to design and launch a comprehensive reform program to turn around the New Zealand economy.

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

The NZT was empowered to perform this new control function by a 1985 overhaul of the machinery through which Cabinet received policy advice. This saw a Cabinet Policy Committee being established with the task of ensuring the clarity and coherence of all policy. Since this structure was serviced by the NZT, it could perform a "gatekeeper function" (Kelsey, 1995), ensuring that in most situations its own policy line would be ascendant^{ix}.

Cultural Transformation. A major transformation of the organizational culture at the NZT appears to have also occurred during the 1980s. Easton (1997) describes how much of its collective memory was lost as considerable staff turnover led to the replacement of

experienced staff with younger policy analysts. Fresh from university, they were keen to apply the sophisticated economic techniques and theories they had learnt to the type of *a priori* policy formulation tasks they were called on to perform at the NZT. They were also eager to engage in the type of expression games described earlier to demonstrate their commitment to advance the GF policy paradigm.

To elicit trust from one another in these games they needed to exhibit at least three qualities: These can be termed the "three P's"- "political correctness", "persistence" and "passion". "Political correctness" could be demonstrated as they developed a language of their own with its characteristic "code" words or phrases^x. They also needed to demonstrate "persistence" in striving to consolidate and extend the application of shared policy principles^{xi}. Finally, they needed to demonstrate a "passion" to advance NZT's policy "quest" to impose and institutionalize the GF paradigm. This passion can be conceived as the high and observable level of emotional energy that could be reinforced through investment in "interaction rituals" (Collins, 1993) that pass "thresholds of boundedness" since they involve participants who share the same core beliefs. Such expression games or interaction rituals provided new NZT staff with the opportunity to signal to their colleagues that they could be trusted as "one of us" (Young, 1989) not just through the political correctness of their speech or the persistence of their actions but also through the passion they invested in activities that involved "puzzling". The culture of passion that developed in the NZT therefore functioned as a selection mechanism with people who shared this passion being drawn to work for the NZT.

The ideologically "bounded" expression games they played with one another spilled outside its organizational boundaries as the NZT established relationships of trust with key business and political leaders. The senior officials who supplied "transformational leadership" to the NZT must have realized that its reinvention as a source of policy leadership, its framing of a agenda for policy reform, and its insistence that reform proceed according to the principles it had specified *ex ante* would be

controversial. It could potentially split the New Zealand policy community and disturb the stable equilibrium of political trust that allowed the “old” Treasury to perform its traditional functions within this community. The NZT clearly needed to operate within a network within which other members could endorse its new role and undertake the political or management tasks required to implement the reforms it advocated.

The Reformist Advocacy Coalition. The key players in the advocacy coalition that formed around the NZT after 1984 were officials in other control agencies, such as the Reserve Bank and the State Services Commission, the reformist factions in both Labour and National cabinets (with Roger Douglas, the Labour Finance Minister from 1984 to 1988, and Ruth Richardson, the National Finance Minister from 1990 to 1993, especially prominent), and the New Zealand Business Roundtable (NZBR). The NZBR is a self-selected lobby group that includes in its membership (which is by invitation only) the chief executives of some of New Zealand's largest companies. After setting up an office in Wellington in 1986 under the direction of former NZT official, Roger Kerr, it was able to perform an important residual advocacy function within the reformist network^{xii}. It also functioned as a “ginger group” as it strove to break new ground in applying the principles laid down by the NZT^{xiii}.

The strong alignment and identification of the NZT with this advocacy coalition meant that opportunities for this control agency to exert the greatest possible leverage over the policy process typically only arose when it enjoyed a mutually empowering relationship of trust with the Finance Minister and where this politician could depend on the support in Cabinet of the Prime Minister. This situation of maximum opportunity appears to have prevailed in New Zealand during the first four years of David Lange's Labour Government (that held office between 1984 and 1990), and during the first two year's of Jim Bolger's National Party Government^{xiv}. During both periods the premiers were prepared to give free rein over economic policy to finance ministers who shared the

same commitment to advance the “New Zealand experiment” as their NZT advisors. By so doing they could claim credit for the provision by their governments of coherent and decisive leadership at a time of “economic crisis”^{xv}.

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

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

It revived again in 1990 when the National Party swept to power and sought to advance the reform process by reducing entitlements to state provision of social services (especially education, health care and social welfare) and reducing the fiscal deficit.

However, the dramatic reduction in National's majority in the 1993 election (despite the "good economic news" associated with a strong non-inflationary economic recovery) prompted Prime Minister Jim Bolger to demote NZT's most powerful "ally" in Cabinet, Ruth Richardson, from her key position as Finance Minister. From 1993 to 1999, the NZT had to work with a Finance Minister, Bill Birch, who was more interested in "consolidating" than "advancing" the New Zealand experiment in neo-liberal reform. Nevertheless, Birch did draw on NZT advice as he sought to define a centre-right position, in the context of a National-Labour consensus against reversing the reforms. In the main he argued that the budget surpluses that emerged after 1994 be directed toward a phased program of tax cuts once government debt had been reduced to "prudent" levels in relation to GDP^{xviii}.

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

A third threat arose from the growing concern in government departments outside the control agencies about the negative impact of radical restructuring and reform on "social cohesion" in New Zealand. They were strongly influenced by the work of Robert Putnam (1993) who seemed to have established a link between social capital and social cohesion, on the one hand, and economic performance and governmental effectiveness, on the other. To some extent they took their cue from the then Prime Minister, Jim Bolger. Over the 1993-6 period, he was publicly asserting the need to "bring back the balance" and predicted that future policy development would place even greater emphasis on the role of communities in "building the social capital of the nation" (Blakely and Suggate, 1997, p.83).

Finally, the New Zealand Labour Party (NZLP) that remained in opposition over the 1990-1999 period appears to have been strongly influenced by the popularity of the "Third Way" approach followed by the Clinton government in the US and the Blair government in the UK. This could be seen as a reaction to the "strong" style of policy leadership that Little (1988) argues was "all the rage" during the 1980s. A climate of anxiety appears to have developed under governments seeking to exercise strong leadership. This was generated by the belief that these governments would both allow producers and workers to be exposed to the "harsh realities" of a dynamic and volatile global environment without providing them with adequate assistance to adjust to its exigencies while, at the same time, seeking to exclude, marginalize and overcome any source of resistance to their reform initiatives. This climate ensured that there was considerable receptiveness to the more "appreciative" leadership style the Third Way governments sought to exercise by building on (and extending) the historic achievements

of their "strong" predecessors while, at the same time, focusing on the facilitative role of the state to help the victims of change adjust to the "new realities". However, the Third Way did not just represent a change in style: "Nothing more than a watered down version of the neo-liberal policies pursued by Thatcher and Reagan" (Eichbaum, 2000, p38). Giddens (1998) has argued that it also needed to be taken seriously as a policy paradigm in the making.

Third Way governments, such as those of Clinton and Blair, claimed to have been influenced by prominent economists, including Akerlof and Yellen (1986), Mankiw and Romer (1991) and Greenwald and Stiglitz (1993). They belonged to a "New Keynesian" school that sought to develop a more flexible approach to macroeconomic policymaking than their "New Classical" rivals. Typically they proposed that monetary policy could reduce instability in GDP and unemployment without destroying the credibility of inflation targets while fiscal policy could allow for a more flexible use of budget surpluses.

Third Way governments also sought to differentiate themselves from their predecessors in terms of their supply-side agenda. In this regard, British Prime Minister, Tony Blair, and German Chancellor, Gerhard Schroeder asserted in a joint statement that "changes in interest rates and tax policy will not lead to increased investment and employment unless the supply side of the economy is adaptable enough to respond" and that " the most important task of modernization is to invest in human capital: to make the individual and businesses fit for the knowledge-based economy of the future" (Blair and Schroeder, 1999). It should be pointed out, though, that the main item on this agenda - the acceleration in the accumulation of the human and social capital stocks required by

the "knowledge economy" - was made achievable, within conservative fiscal policy settings, by the budget surpluses generated over long periods of positive growth and spending restraint by their predecessors. However, unlike their predecessors, Third Way governments advocated "reinventing government" (Osborne and Gaebler, 1992) rather than "rolling back the state". This means that they typically seek to broaden the focus of their public management reforms from a drive to cut the costs of delivering tightly specified outputs to an approach that attempts to make public agencies primarily responsible for the outcomes of "citizen-centred services". According to Blair (1998), his declared ambition was to lead "a government that focuses on the outcomes it wants to achieve, devolves responsibility to those who can achieve those outcomes, and then intervenes in inverse proportion to success."

The election of a Labour-led coalition in New Zealand in 1999 that appeared to be committed to pursue the "Third Way" farther than any of its social democratic counterparts seemed to pose the most significant threat to the NZT's authority since its "standoff" with National Prime Minister Robert Muldoon in the 1983-4 period. The new Finance Minister, Michael Cullen, gave the initial impression of being the most unsympathetic minister the NZT has had since Muldoon. According to Laugesen and Maling (2001):

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

Meanwhile, the potential for a significant shift in the "locus of authority" has been "brewing" within the Department of Social Policy. James (2001) reports that its

Minister, Steven Maharey, is currently seeking to transform it into a "superministry", "the social equivalent of the Treasury", "testing all policy against social criteria the way the Treasury does against fiscal and economic criteria". According to this commentator, the formation of strategic social policy group within this department in 2000 constituted the first step in the development of a "policy analysis and ideas factory". This would bring together analysts who currently work in separate departments formulating health, education, housing, justice, social security and social services policy so that a framework can be established to which all these agencies would eventually work. In view of the emergence of what would be a significant institutional competitor, Laugeson and Maling (2001) could, without journalistic exaggeration, observe that:

"Several years after the more-market project hit a brick wall in New Zealand, Treasury is at a crossroads. It can either change its thinking, and once more become a powerhouse for national economic strategy. Or it can remain pure but sidelined, biding its time in the hope the political climate will change again".

The cultural changes that the NZT already appears to be undergoing in response to this situation will be considered by way of conclusion to this paper.

IV. Conclusion: Is the NZT Re-Inventing Itself Again?

This paper has presented the NZT as a control agency that establishes its organizational identity by developing a distinct culture that its secretary will only seek to change when it is faced with a shift in the locus of authority that threatens its dominant position in the policy process. Such a cultural transformation occurred in the 1980s. Will another "re-invention" occur in the face of the cumulative threats to the NZT's authority discussed in the previous section?

There are some indications that it is occurring already. The current secretary, Alan Bollard, is an academic "outsider" who has set himself the goal of transforming the

NZT's culture during his five-year term that commenced in 1998. Laugesen and Maling (2001) quote him as stating:

"Culture is something that is quite big in Treasury. If you're trying to change Treasury you're trying to change the culture as well. And I am trying to change Treasury and change culture".

He has tried to do this in a number of ways. According to Laugesen and Maling "he is consciously hiring older staff, saying that younger staff don't stay as long and sometimes don't have the personal skills that are needed". He is placing his staff under pressure to improve their "relationship skills": "It does mean reinforcing what other departments are doing, helping them take the lead. It means working with them a lot more". He is also trying to encourage them to "think more broadly" and is deliberately hiring outsiders from New Zealand universities "to bring new ideas into Treasury". Perhaps most significantly he has tried to align the agenda of his officials with that of the new "Third Way" government. The NZT's briefing paper to the incoming government in 1999 made considerable reference to the need to enhance social cohesion by building social capital. Moreover, while its just released position paper entitled "Towards an Inclusive Economy" (New Zealand Treasury, 2001) offered a neo-liberal perspective on the government's attempt to formulate, for the first time in fifteen years, a regional development strategy, advocating relocation assistance to assist job-seekers in moving out of deprived regions, it also acknowledged a "need to deal with the immediate concern for the social protection of today's vulnerable people"

It remains to be seen whether Bollard will succeed in transforming the culture of the NZT to preserve its pre-eminent position in the New Zealand policy process. However, some clear lessons appear to have emerged from the discussion of its recent history in this article. Firstly, no control agency can allow itself to jeopardize the relationship of trust it enjoys with its political principals. It will only move "out of step" in anticipation of the political "sea-change" produced by the shift to a new policy

paradigm. Secondly, regardless of the direction its head seeks to steer its culture, the means used for doing so remain basically the same: agenda-setting, strategic hiring and engagement in expression games designed to link the reputation of officials with their ability to convey the "correct" impression to policy actors both within and outside their organization.

FOOTNOTES

ⁱ New Zealand operates under a "Westminster-style" parliamentary system of government in terms of which the Cabinet of the elected government has "final authority" and "collective responsibility" over policy making.

ⁱⁱ "Liberalization" involves a redirection of policy away from an interventionist approach in which the state plays a leading role in promoting import-substituting industrialization toward a more market-oriented approach in which the state increasingly limits its role to those core functions, including control of the currency and of revenue-raising, in which it has a comparative institutional advantage and strategically withdraws from other areas to facilitate the global integration of the national economy into the world economy. "Stabilization" constitutes a break from a short-term, Keynesian, focus on aggregate demand management to maintain full employment so that macroeconomic policy can have a more medium term focus with monetary policy being directed toward controlling inflation and fiscal policy being directed toward ensuring that the present value of future government spending can be financed from the present value of tax revenues so that the risk of an unsustainable build-up in government debt can be avoided.

ⁱⁱⁱ Firstly, observers have been generally struck the sheer scope of the reform programme undertaken in this country. Bollard et al (1996) lists more than one hundred major policy initiatives over the 1984-1993 period. These include, for example, the "reduction of import tariffs from an average of 28 per cent to 5 per cent" and the "corporatization of 24 state-owned enterprises". Secondly, the New Zealand experience offered a sharply defined experiment in liberalization and stabilization which was controlled in the sense that - unlike in Eastern Europe - the basic capitalistic institutions for defining and reassigning property rights were already well-established. Thirdly, the coherence of the reform process was sustained through two terms of a Labour government between 1984 and 1990 and one term of a National government from 1990 to 1993, despite the fact that the reforms constituted a radical break from both the social democratic traditions of the Labour party and the conservative, interventionist traditions of their National rivals and there was a fluctuating commitment at Cabinet level to their advancement. Fourthly, in contrast to the "big bang" strategies being followed at the time in countries like Poland, these reformist governments modeled a "selectively radical" approach "in the sense of a limited number of reforms that are radical enough to make a real difference can combine the benefits of the 'big bang' and more gradual approaches while reducing associated risks" (OECD, 1995, p.78). A series of "policy blitzkreigs" were launched in the areas of financial deregulation, tariff liberalization and removal of agricultural subsidies in 1984, tax and state-owned enterprise reform in 1986, the management of government departments in 1988 and of the public health sector in 1991, and in the targeting of social welfare assistance and labour market deregulation in 1991. In each case, " the lightning strike involved a policy goal radically different from the existing configuration, to be attained in a short period, following a surprise announcement and a very rapid implementation" (Easton 1994, p.215). Fifthly, the framework for the advancement of liberalization and stabilization processes after the passage of reforming legislation was established by restructuring the public sector according to the "New Zealand model of contractualist governance" (Schick, 1998). This model was embodied in the State Owned Enterprises (SOE) Act of 1986, the State Sector Act (SSA) of 1988 and the

Public Finance Act (PFA) of 1989. The central purpose of this legislation was to focus the state on its "core business". Sixthly, the approach to economic policy reform and government restructuring in New Zealand has been widely recognized as being both more far-reaching and intellectually rigorous than the more pragmatic approaches followed in other countries (Hood, 1991; Schick, 1996).

^{iv} The "theory of second best" (Lipsey and Lancaster, 1956) has highlighted the problems with piecemeal interventionism by analysing the conditions under which a piecemeal correction of an instance of market failure may move an economy, in which such imperfections occur in more than one sector, even further away from a constrained global optimum.

^v Hall (1993) writes that

"Paradigms are by definition never fully commensurable in scientific or technical terms. Because each paradigm contains its own account of how the world facing policymakers operates and each account is different, it is often impossible for the advocates of different paradigms to agree on a common body of data against which a technical judgment in favor of one paradigm over another might be made" (p.280).

^{vi} Sabatier (1991) conceives advocacy coalitions being formed within policy-specific "policy sub-systems". However, as Wallis (1997) has argued a similar concept can be applied to an advocacy coalition or "conspiratorial network" with the system-wide goals derived from it shared commitment to impose and institutionalize a new policy paradigm.

^{vii} Margaret Thatcher, herself, appears to have played a key role in this regard (Hall, 1993, p.287):

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

^{viii} In an extensive series of interviews with those actors who played an influential role in making economic policy in New Zealand over the 1984-1993 period, Goldfinch (2000) found that four NZT officials - Graham Scott, Bryce Wilkinson, Robert Cameron and Roger Kerr- were nominated as being more influential around 1984 than Bernard Galvin who was Secretary at the time. It appears that Galvin was prepared to allow these subordinates to assume the reins of policy leadership within the organization in much the same way that the Labour prime minister, David Lange, gave his finance minister, Roger Douglas, a free rein in driving the new economic policy direction through various veto points in Cabinet, caucus and Parliament. Easton (1997) has, with his characteristic sense of drama, described this as a "colonel's coup" within the NZT. The influence of the "colonels" increased through the 1980s as Scott replaced Galvin as Treasury Secretary and Kerr assumed the position of director of the hugely influential Business Roundtable.

^{ix} As Boston (1991, p.194) has observed "any policy analysts . . . who reject the prevailing Treasury orthodoxy are at a major disadvantage. For in order to have their views taken seriously they must first demonstrate the validity and coherence of their own analytical framework, and this is no mean feat, particularly if it has to be done in the face of determined Treasury opposition".

^x Boston (1991) points out the way such advocates of the New Zealand experiment "changed the language of policy discourse" (p.39). They repetitively used words such as "efficiency", "transparency", "accountability" "credibility" and "contestability" not just as short-hand terms for the principles according to which they seek to reshape the role of the state in the economy, but as "codes" to signal to one another their

commitment to a common cause. "Coherence" seems to have become a code word *par excellence*. A policy participant who persistently stresses the need for coherence is someone who advocates a particular reform for the "right" reasons - not in order to counter and balance past excesses, but rather because the reform logically emerges from, and continues, a redirection of the policy process that is believed to be "the correct one" since it is founded on "the right principles". It forms part of the language of "political idealists" or "true believers" rather than pragmatists who are concerned that the policy process may get driven too far in any one direction.

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

^{xii} Easton (1997, p.116) has observed in this regard that:

"The Roundtable (did not) lead the . . . revolution. Their public commitment occurred well after the strategy was under way, although without their involvement it probably would not have gone as far. . . . If Treasury had its public advocacy blocked, the Roundtable would often take the case up. Instances included the competition policy reform, student fees, social welfare, health and labour market reform. When many of the Treasury's policy initiatives were stalled in the late 1980s, following the resignation of Roger Douglas, it was the Roundtable which took over. This was most evident in its leadership of the policy development which resulted in the Employment Contracts Act" (1997, p. 116).

^{xiii} It is somewhat puzzling why New Zealand's business elite were prepared to identify themselves with the policy positions advanced by Kerr. They would have realized that there would be winners and losers in the reform process he advocated and have been uncertain, *ex ante*, about "where the chips would fall" for the sector or industry whose interests they were representing. "Friends" of the Roundtable, such as Roger Douglas (1993, p.57) have claimed that these narrow, sectional considerations did not influence its policy "position statements", being unstinting in their praise for the way it "put self interest and privilege aside in the national interest", issuing "reasoned, research discussion papers in the full glare of public debate". Easton (1997, p.115), however, remains sceptical. He points out that "the Business Roundtable ignored any matter where a purist New Right position would infringe their immediate interests. Thus they did not comment on tariff policy, research and development policy, accountancy reform, commercial law reform, or the issue of the substantial donations to political parties made by business (Roundtable businesses prominent among them)". Perhaps one explanation for this puzzle is to suppose that the members of the Business Roundtable did not represent any sectional interest at all. They represented the interests of the "top 40 or 50" chief executives in the country and recognized that a global whirlwind of social, political, economic and technological change was generating unprecedented opportunities to boost the power, prestige and pay of whoever occupied the top executive echelon in the private and public sectors of the national economy. The "demise of the corporate man" in English-speaking nations since the 1980s has been vividly described by Sampson (1995) who argues that in an environment of accelerating computerization, intense global competition, financial deregulation, and the "leveraged buyout", "downsizing" and "delaying" of corporate bureaucracies by "corporate raiders" on a crusade to advance the short term profit maximisation of the giant insurance companies and pension funds who own the bulk of shares in modern companies, there has been an upward spiral in the demand for a new breed of chief executive. This new executive is someone who can "make the tough decisions", who can provide "leadership", and exert leverage over the behaviour of the core of specialist "knowledge workers" (Drucker, 1993) who remain in organizations after they have been stripped of multiple layers of middle management. The market for this new breed has been described by Frank and Cook (1995) as a "winner take all market" in which competition for a limited number of positions can cause a "hyperinflation" of the pay packages of those who can lay claim to being the best performers. These organizational "superstars" experience "solidarity benefits", not just in interacting with one another, but with other "key players" in government and politics who, like them, have to make "tough decisions" which effectively remove the job security of a greater and greater percentage of the people who are affected by them.

^{xiv} The emergence of a minority National government under Jenny Shipley in 1998 after New Zealand First broke from the Coalition Government formed after the first mixed member proportional representation (MMP) election in 1996 provided more favourable conditions for a “mini-wave” of neo-liberal reform proposals although few actually passed into legislation under the new parliamentary environment.

^{xv} Both Lange and Bolger rationalized their support of the radical reforms launched by their finance ministers in terms of the post-election crises that confronted their governments. In the case of the Lange government, the pretext for reform was provided by a currency crisis. During the 1984 election campaign the New Zealand dollar was subject to a speculative attack in foreign exchange markets. The Treasury and the Reserve Bank advised the then incumbent Prime Minister, Robert Muldoon, to devalue the currency. He refused, and the attacks on the dollar increased to crisis levels until devaluation was finally undertaken in the first post-election policy announcement of the new Labour government. The next logical steps seemed to be the deregulation of financial markets and the floating of the exchange rate. The window of opportunity was thus opened for the Treasury and Douglas to propose a comprehensive program of liberalization and stabilization as a coherent strategy to deal with New Zealand's underlying structural problems. In the case of the Bolger Government, the pretext for the programme of fiscal austerity and labour deregulation launched at the end of 1990 was provided by a post-election blowout in forecasted budget deficits and the need for the new government to bail-out the partly state-owned Bank of New Zealand. The "crisis hypothesis" of policy reform which holds that public perception of a crisis is needed to create the conditions under which it is politically possible to undertake extensive policy reforms (Williamson, 1994) would certainly appear to be relevant to the situation prevailing after the 1984 and 1990 elections in New Zealand.

^{xvi} Brian Easton has described how, during the first term of the Labour Government (1984-7), finance minister, Roger Douglas, formed a particularly effective "Troika" with his ministerial associates David Caygill and Richard Prebble and encountered little resistance in their drive to push through legislation based on the NZT's policy proposals. According to this writer policymaking within the Cabinet of the Fourth Labour government took the following pattern:

"The policy process went like this. The Troika, having come to some policy decision based on Treasury advice, would persuade (Prime Minister) Lange and (his deputy) Palmer of its correctness. The tight five would then take a proposal to a Cabinet committee. The recommendations would then go to Cabinet, and then on to caucus. At each step in this decision tier, there was already a majority in agreement. This most obviously applied at the caucus level. The Cabinet . . . usually supported the . . . decision under the principle of collective responsibility. Allowing for a few other functionaries (whips, chairpersons of committees, the caucus secretary), and a few reliable loyalists, the Cabinet (which might have been split when it made its decision) had a natural majority in the caucus. (Often the caucus would not even be consulted, because the Cabinet knew it could rely on retrospective acquiescence.) The same process of majoritarian loyalty gave the government its majority in Parliament. . . This was a formidable degree of leverage by a few politicians over the entire country" (Easton, 1997, p.75)

^{xvii} One indication of this as the formation by Lange of the Department of the Prime Minister and Cabinet (DPMC). Although he seems to have intended that this body would develop an independent policy advisory capacity, in practice, it seems to have enjoyed close links with the NZT as officials moved freely between the two departments.

^{xviii} The Fiscal Responsibility Act of 1994 committed future governments to make “transparent” through public announcements the medium term fiscal policy goals they deemed to be “prudent”.

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