

*Reorganizers of the state in Australia, New Zealand, Denmark, and Sweden during the 1980s tried to separate policy-making from the production of welfare and other services by introducing market disciplines and competition. Fiscal bureaucrats, afraid of rising fiscal deficits and public debt, sought to control what they saw as rent-seeking behavior and agent abuse of principals in the public sector. They argued these changes would reduce incentives for collective rent-seeking behavior and prevent shirking. Fiscal bureaucrats thus sought to control future behavior in the public sector by changing the incentive structures workers and agency managers faced.*

***PUBLIC CHOICE THEORY  
AND PUBLIC CHOICES  
Bureaucrats and State  
Reorganization in Australia, Denmark,  
New Zealand, and Sweden in the 1980s***

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**During the 1980s**, governments in most of the advanced industrial countries tried to slow the growth of their public sector and reduce the size of their fiscal deficit. New governments in Australia, New Zealand, Denmark, and Sweden all attempted major reorganizations of the institutional and ideological structure of their public sectors as part of an effort to control unsustainable fiscal deficits. In all four countries bureaucratic and extra-bureaucratic actors tried to replace existing bureaucratic methods for the

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provision of government-produced goods and services with market-driven methods. These reorganizers tried to constitute markets for many public services by separating policy-making from policy execution (or service provision). They did this by opening up service provision to competition and by inserting a cash or contractual nexus between providers of services and consumers and funders of services. This separation created the discrete buyers and sellers of goods and services that markets need in order to function. Reorganizers complemented this separation with changes in work practices inside agencies and between agencies and their funders, that made it possible for agencies to respond to market pressures. Reorganizers claimed that these changes would not only fundamentally change the way the state functioned, but also constrain rent-seeking behavior that they claimed threatened economic growth and fiscal stability.

The agents, degree, and nature of change in this effort to introduce market pressures were unusual. Most of the deregulating and liberalizing governments of the 1980s were conservative, but these countries had left-wing governments, except in Denmark where the conservative government was strongly influenced by the Social Democratic party. Given left-wing governments, the degree to which market pressures were interpolated into these states was also unusual (Schick, 1990). Ideological tides ran in favor of markets during the late 1970s and 1980s. Governments everywhere deregulated private enterprise and privatized many nationalized industries. But these four countries saw more extensive and subtle changes. Rather than simply withdrawing the state from the market through deregulation or the sale of government enterprises, these governments also tried to bring the market into ongoing noncommercial state operations, in particular welfare states. Reorganization thus went beyond the cost-benefit considerations and tinkering typical of most pre-1980s reforms.

The nature of the changes indicates the significance of the subtle transformation that reorganizers sought. Reorganizers restructured the institutional fabric of the state in order to change the behavior of both citizens and public sector employees by changing the incentive structures those groups faced. Reorganizers viewed public sector employee efforts to secure better remuneration and work conditions, more work site autonomy, and larger budgets, as rent-seeking behavior. Reorganizers aimed to insulate the state from this rent seeking. Reorganization of the state in these four countries thus pitted the core of the old state—the fiscal and executive bureaucracies—against the new state—bureaucracies involved

in the provision of welfare services and services to industry. This struggle was thus the politics of structural choice on a massive scale: an effort to reengineer state institutions in order to change people's behavior (Moe, 1990). Reorganizers aimed at fundamentally transforming the behavior of public sector employees, the links among different state agencies, and ultimately the relationship between state and society in order to advance a political agenda in which curbing public sector growth was a high priority.

This article looks briefly at the political context that made public sector reorganization possible and motivated fiscal bureaucrats to participate in that reorganization. Then it turns to the arguments about rent seeking that reorganizers based in the fiscal bureaucracies advanced to justify their proposed changes. Their ideas did matter, because their arguments shaped the plans for reorganization that politicians ultimately executed. The third section addresses those changes in each country, showing significant cross-country similarities. The last section advances some arguments about the politics involved in these changes. For reasons of space, this article will ignore or treat only briefly two important related issues: privatization in its narrow sense—the selling off of state owned commercial enterprises—and the motives or proposals of extrabureaucratic actors. Narrow privatization differed little from privatization elsewhere. What differs here is the introduction of market practices into the provision of welfare and similar services.<sup>1</sup> Extrabureaucratic actors' motives are treated briefly in the following section.

### ORIGINS OF REORGANIZATION EFFORTS

In all four countries the reorganization efforts of the 1980s had been prefigured in significant inquiries or reforms launched in the late 1960s or 1970s. These inquiries and reforms occurred concurrent with rapid expansion of the welfare state and state economic intervention.

As early as 1962 in Denmark the A60 Administration Committee had recommended a separation of planning and provision, which the 1970 and 1975 Committees on Planning Activities of the Central Administration reinforced. These reforms concentrated policy-making in the hands of small ministerial staffs, while setting up distinct departments under each ministry to implement policy. They also raised the service quality and cost issues. The 1971 Korsbæk Committee decentralized service provision to local government. The 1970s also saw a tax revolt, motivated in part by the high costs of the welfare state (Christensen, 1992).

In Australia, a variety of federal and state royal commissions made similar recommendations, criticizing the overbureaucratization of state agencies and their indifference to their customer and clients (Coombs, 1976; Reid Report, 1983; Wilenski, 1977). In the late 1970s, the Liberal-National (i.e., conservative) party coalition government made strenuous efforts to discipline public sector labor. The Australian Labor party explicitly campaigned on public service reform in the 1983 election (Australian Labor Party, 1983).

During the 1970s, Sweden also decentralized service provision to local government and increased parliamentary supervision of an otherwise powerful bureaucracy. Despite this, the central government mandated an increasing range of welfare benefits as part of an effort to control wage militancy (Pontusson, 1992).

In New Zealand, royal commissions in 1977 and 1982 dealt with financial management and taxation, and three successive reviews of public sector pay spanned the 1960s and 1970s, but then Prime Minister Robert Muldoon's heavy hand blocked significant changes (Walsh, 1991).

At the end of the 1970s and all through the 1980s a range of external sources, like firms hawking privatization services and intergovernmental organizations like the Organization for Economic Cooperation and Development (OECD) and International Monetary Fund (IMF), reinforced the sense that there was something wrong with the public sector. The OECD played a particularly salient role, publishing a range of studies calling for public sector reorganization. These pointed out the growing financial costs and organization difficulties of public sector employment, the political costs of public sector unresponsiveness, suggested widespread introduction of user fees, and called into question the viability of social service provision (OECD, 1979, 1987, 1990a, 1990b; Oxley, Maher, Martin, & Nicoletti, 1990). The OECD and IMF also served as a training ground for bureaucrats on secondment from domestic fiscal bureaus. Staffed largely by economists, both the OECD and IMF analyses were heavily influenced by public choice theories.

Despite these earlier reform efforts, during the 1970s the public sector in all four countries expanded rapidly. Although total public expenditure in all the industrial (OECD) countries had shown elasticities greater than one with respect to gross domestic product, during the 1970s Australia, Denmark, and Sweden had elasticities above the OECD average (OECD, 1979).<sup>2</sup> After lagging below average during the 1970s, New Zealand experienced a rapid increase in its elasticity and jumped above average during the early 1980s. By the early 1980s, the public sector employed

**TABLE 1**  
**Economic Indicators in Year Government Changed**

	<i>Current</i> Account Deficit as % of GDP <sup>a</sup>	<i>Fiscal</i> Deficit as % of GDP	<i>General</i> Government Spending as % of GDP	<i>Public Sector</i> Employment as % of Labor Force
Australia	3.9	4.2 <sup>b</sup>	38.6	17.4
Denmark	4.0	9.2	61.2	30.2
New Zealand	6.0	8.9	35.3	24.9
Sweden	3.3	7.1	66.3	32.9
OECD average	0.3	4.2	45.8	18.0

SOURCES: Columns 1 and 2 calculated from *Economic Growth in a Nordic Perspective* (pp. 316-319, 363-366) by Det økonomisk Råd; *Balance of Payments* (ABS #5303) by Australian Bureau of Statistics; *Economic Survey—Australia 1989/90*, OECD; *Economic Survey—New Zealand 1989/90*, OECD; *Economic Survey—Denmark 1989/90*, OECD; *Economic Survey—Sweden 1990/91*, OECD. Columns 3 and 4 from "Recent Trends in the Size and Growth of Government in OECD Countries," (Public Sector Research Center Discussion Paper #20) by P. Saunders, 1991.

NOTE: 1982 for Denmark and Sweden; 1983 for Australia; 1984 for New Zealand, except for public sector employment which is 1984 for all countries.

a. GDP = Gross domestic product.

b. Australia's PSBR was 6.7 though, reflecting heavy borrowing by state enterprises.

nearly one third of the labor force in Sweden and Denmark, one quarter in New Zealand, and, excluding public enterprise (Government Trading Enterprises GTEs), about one fifth in Australia. This rapid expansion hit political and economic barriers in the early 1980s as fiscal and current account deficits rose to unsustainable levels (Table 1).

By the early 1980s, political coalitions favoring a reorganization of the public sector had emerged in each country. These coalitions linked unions and employers in economic sectors exposed to international trade, former opposition political parties, and fiscal bureaucrats. Each sought a different mix of political and economic ends, but all looked to public sector reorganization as an important means to that end. Politicians in these new governments, entering power after long periods in opposition, sought to consolidate a majority by attacking an inefficient or unresponsive public sector; in Sweden they also hoped to defend the legacy of decades of political control by showing they could fix the public sector they had created.

Firms exposed to international competition were alarmed by the way public sector wage demands and rising public debt boosted taxes. In turn, this created a tax wedge between the wages they paid workers, and the wages workers received. This tax wedge made them uncompetitive in

world markets, and made their workers restive. Furthermore, the high cost of nontraded goods, of which the state was the largest provider, also made them uncompetitive by boosting input costs.<sup>3</sup> Unions in this sector sought to restore differentials between themselves, unskilled workers, and public sector workers that had been compressed during the 1960s and 1970s (Nannestad, 1991; Swenson, 1991).

Fiscal bureaucrats, who ultimately supplied much of the content for reorganization, had their own motives. These centered on their institutional roles as guardians of the money supply (for central bankers), and as overseers of public spending in general (for financial ministries). They identified the new state—the welfare state and its associated client groups—as the source of rising deficits. They sought more autonomy for the old core state—the state of the fisc, courts, and military—in order to control fiscal deficits. They felt that reorganizing the public sector would help insulate the old core state from demands generated by clients and providers in the new state. These demands seemed to be the origin of inflation, and rising fiscal and current account deficits. The latter interacted, leading to rising foreign held public debt in each country during the 1970s (Table 1). Fiscal bureaucrats feared the fisc would be crippled by interest payments and become dependent on foreign creditors.

Fiscal bureaucrats played a delicate and dangerous role in these reorganization efforts. In general, the more fiscal bureaucrats were willing and able to provide detailed policy advice to governments, the greater the degree of change in each country. Although bureaucratic advocates for reorganization could not have succeeded in the absence of extrabureaucratic allies, fiscal bureaucrats largely shaped the content of reorganization proposals because they supplied the ideas for reorganization. Businesses everywhere called for more businesslike states, but their primary interest was privatization and deregulation. They had little to say about the specific shape of a reorganized public sector. Moreover, businesses were in the midst of massive changes themselves, removing any fixed private sector model on which the public sector might model itself (Kanter, 1989; Sabel, 1991). Politicians and parties also had ideas about how to change the public sector, but with some exceptions they relied on bureaucrats to furnish details and coherence (Andersen, 1990; Dawkins, 1983; Oliver, 1989). Although business and politicians occasionally proposed changes in the public sector, and politicians and government ultimately enacted most change in the public sector, it was fiscal bureaucrats who provided most of the programmatic ideas for public sector reorganization that governments later enacted.

The danger and delicacy for bureaucrats came from this provision of content. Any reorganization necessarily creates opposition, and an open role for bureaucrats exposed them to criticisms that they had overstepped their role as public servants. Bureaucrats' willingness to come forward with reorganization proposals reflected their own internal unity and the likelihood that change would be successful, thus lessening the chances of retribution later. The more likely changes were to succeed, the more likely bureaucrats were to step forward, and vice versa. In turn both of these reflected structural opportunities and impediments to rapid change in each country. Different constitutional and electoral arrangements regarding proportional representation and districting affected the number and power of parties, and thus the kind of majority (or minority) governing parties had. It also affected the nature and number of parties' core constituencies and thus parties' willingness to risk alienating them. Despite similar desires, the coalitions favoring reorganization did not fare equally well: in New Zealand, where single-member districting created absolute Labour party majorities, fiscal bureaucrats aggressively advanced a reorganization agenda and reorganization went furthest; in Denmark, where proportional representation led to minority coalition governments, fiscal bureaucrats were more timid and the degree of reorganization was smallest (Schwartz, in press).

### RENT SEEKING AND THE STATE

Whence came fiscal bureaucrats' ideas? Intra-bureaucratic reorganizers, primarily concentrated in the finance ministries and central banks in these four states, used critiques of the post-World War II state, and in particular the welfare state, to justify the changes they proposed (Australian Labor Party, 1983; Dawkins, 1983; Easton, 1988; Finansministeriet, v.d.; Kristensen, 1987; Pusey, 1991; SAMAK, 1989; Scott & Gorringer, 1989; Sturgess, 1991; Treasury Department, 1984, 1987).<sup>4</sup> These critiques claimed that rent-seeking behavior caused uncontrollable growth in government spending and employment, and that problems in agent-principal relations led to poor quality in government services. Indeed, by the early 1980s each of these states was running large fiscal deficits and public dissatisfaction with government services was high.<sup>5</sup> Whether claims about the origins of these problems are true or not is irrelevant to this article; what matters here is that these claims about origins ultimately informed reorganization plans. Fiscal bureaucrats largely based their claims on the

public choice literature present in the early 1980s, and the following discussion reflects this.

Four related issues seemed paramount to fiscal bureaucrats. First, state agencies were subject to capture by their clients, who, as particular segments of society were neither isomorphic with the general public nor with elected representatives of that public, such as department ministers (Offe, 1984; Posner, 1974). Clients had incentives to demand socially irrational levels of spending or employment. Second, as bureaucracies, state agencies tended toward a self- or bureaucratic capture, leading to nonrational decision making and aggrandizement as their personnel (agents) behaved opportunistically (Niskanen, 1968, 1971; Williamson, 1985). Third, despite capture, state agencies often were unresponsive to client needs, over- or underproviding low-quality services in an inefficient manner because employees were maximizing their interests rather than public interests (Williamson, 1985). Finally, politicians often pressured agencies into an inefficient or non-cost-effective extension of services, or hampered agencies' ability to pursue their mission (Moe, 1990). The first two problems are species of rent-seeking behavior; the third is specifically an agent-principal problem similar to rent-seeking behavior; and the last combines elements of both (Buchanon, Tollison, & Tullock, 1980; Olson, 1982).

All of these problems emerge from asymmetries in groups' interests and abilities to organize collectively, and to use voice and exit to influence organizations (Hirshman, 1970; Olson, 1965, 1982). As Olson has argued, successful collective action is more likely when small groups with narrow, well-defined interests attempt to claim resources that can then be redistributed within the group. In contrast, large groups with diffuse interests find it more difficult to organize in the absence of some kind of coercion.<sup>6</sup> Precisely this asymmetry allows internal groups (bureaucrats themselves) or external (social) groups to capture state agencies in the pursuit of rents, that is benefits that exceed those a hypothetical free market would have provided. Small groups can effectively use voice to generate political pressure to create or retain a service that disproportionately and perhaps uneconomically benefits themselves. Although the taxpayers who finance this service do not benefit from it, they cannot exit from taxpaying, and their large numbers make organizing to use voice difficult.

Fiscal bureaucrats argue that the institutional structure for public service provision reinforce tendencies toward rent seeking by adding a moral hazard problem (agents will only pursue principals' interests when those interests coincide with agents' own interests). The information

asymmetry between public sector workers as agents and the government and society who presumably are their principals means that public sector workers can use their highly asset-specific institutional knowledge (Williamson, 1985) to deceive their principals about bureaucratic processes. Nonmarket mediated provision of services can impede improvement in the level of quality service provided by state agencies. Where state agencies possess a monopoly over service provision, consumers cannot exit and choose an alternative producer. Market failure does not discipline those agencies. Consumers can use their voice to discipline agencies.

But consumer voice is mediated through politicians. Politicians filter demands through legislation, by directing agencies to create or execute policy.<sup>7</sup> This filtering hinders agencies' ability to adequately judge consumer desires or be disciplined when they over- or underestimate demand. It also exposes them to political micro-management as politicians attempt to remedy specific complaints from voters and consumers. Paradoxically, filtering also exposes agencies to capture or impels agencies to seek capture in order to open their own information channels to consumers and clients (Offe, 1985). In markets, purchasing decisions and choice among different providers allows for the exercise of voice and exit.

In all four states fiscal bureaucrats allied with incoming governments to try to change the incentive structure bureaucrats, clients, ministers, and politicians faced to a more market-like structure. Because they viewed public sector problems as the outcome of rent seeking and moral hazard, fiscal bureaucrats advocated exposing service providers directly to demand (or voice) by separating policy-making from policy execution and service provision. Policy-making agencies would act as surrogate consumers, making explicit contracts with producing agencies. Alternately, consumers using mechanisms ranging from outright purchase, to vouchers, to capitation fees, could purchase services from producing agencies. Rather than being mediated through politicians, voice could now operate directly as consumers chose among different producers. Competition among service providers for contracts or for consumer purchases would prevent internal capture and force producers to maximize efficiency as well as the gross production of services.

Reorganizers in the fiscal ministries aimed these proposals both at other agencies and at their own nominal principals—politicians. They claimed this combination of contracting and competition would reduce the opportunities for rent seeking and capture. Reorganizers believed that like similar private sector firms in competitive markets, producer agencies

would refuse to provide services below their true cost of production unless provided with an explicit subsidy from the ministry arranging for service. With subsidies made transparent, ministries and politicians would have to seek explicit political approval for any subsidies, exposing rent-seeking groups to counter pressures. Meanwhile, competitive pressures from other agencies or private sector firms willing to tender for service provision would restrict opportunistic behavior by personnel in producer agencies. The separation of policy-making from execution would minimize the danger of bureaucratic capture.

Reorganizers in general were less enamored of agent-principal theories than public choice theories. A strong current of agent-principal analyses motivated some changes in Denmark and Sweden, particularly because political parties articulated a vision in which opportunism stood out as the major problem. This vision suggested that consumers be given more choice among public sector providers, that bureaucratic rules governing consumers' behavior be relaxed, and that consumers be made directly into principals by allowing them to manage public sector agencies like day-care centers.

### THE CONTENT OF REORGANIZATION

Fiscal bureaucrats tried to increase competitive pressures on the public sector by separating policy-making and service provision through four key institutional changes.<sup>8</sup> Consistent with the idea of separating policy from provision, all of these involved a simultaneous centralization of control over the allocation of gross budgetary resources, along with a decentralization of operational authority to use budget and personnel resources. The first change is summed up in the slogan "let managers manage," but really meant the reimposition of private-sector-style wage disciplines on public sector labor. In varying degrees older tenure, seniority, job classification and uniform pay systems in the public sector gave way, and managers gained the power to hire and fire, to set fairly individual pay scales (including incentive pay), to set flexible work hours, and to determine individual job responsibilities. This change extended to senior civil servants as well.

The second is summed in the phrase, "management for results," and involved the reorientation of management attention away from inputs and toward outputs and outcomes. Budgeting and accounting practices shifted from detailed control over inputs to a focus on outputs, and current and

capital spending were split. Simultaneously the (sometimes limited) introduction of user-pays principles encouraged managers to recover at least part of the cost of production, particularly when they were allowed to retain part of this revenue. Consistent with these two changes, finance ministries achieved greater control over the budgeting process and, except for Sweden, control over public sector personnel shifted from dedicated public service boards to finance ministries. These changes were aimed at reducing the ability of agencies and agency personnel to rent seek, by subjecting personnel and agencies to competitive pressures. Competition or contestability assured that market pressures would force managers to use their new found managerial freedoms to search for efficient production methods.

Third, reorganizers changed the machinery of government to make it conform more closely with private sector models of the hollow corporation or holding company, in which planning and implementation are divorced (Greiner, 1988; Hjortdal & Wolf, 1990). Strategic decision-making, including the allocation of investment resources, was concentrated into small teams who arranged for the purchase and provision of services from both internal and external suppliers, and who themselves managed the managers. Despite the failure of earlier across-the-board budget cutbacks, reorganizers used preannounced real budget decreases to increase pressure on managers to increase productivity.

Finally, agencies' monopolies over service provision were abolished or undercut with the introduction of, for example, competitive tendering. All these changes aimed to reduce surveillance costs and the formation asymmetries creating moral hazards. Planners and contractors could afford to let implementation agencies be black boxes, so long as they could replace them with other (equally black box) agencies from the public or private sector in the event of failure to produce the outputs specified by the contract.

What specifically happened in each country? Our discussion will be organized around the four main changes noted above.

#### NEW ZEALAND

The Labour party government elected in 1984, and reelected in 1987, has most thoroughly transformed its state, a process continued and intensified by the National Party government elected in 1990. Both governments relied so heavily on proposals emanating from the fiscal bureaucracy that some local observers talked of a "Treasury coup d'etat."

## Creating Wage Discipline

Three acts fundamentally transformed labor relations, and the status of managers within state agencies and enterprises. The first of these, the State Owned Enterprise (SOE) Act, 1986, split trading activities run by the state out of regulatory and line agencies, corporatising them as nine major commercial firms. It fully inserted these new SOEs into the market along private lines. Although this act dealt only with commercial enterprises, it provided a model for other parts of the public sector, particularly after some of these corporatized SOEs were privatized.

The other two acts, the State Sector Act of 1988 and the Public Finance Act of 1989, were more consequential for labor discipline in the traditional welfare state and noncommercial agencies. Prior to these acts, agency employee work conditions and pay were governed by the State Services Commission. The commission set wages and conditions according to centrally determined job categories, without regard to the specific needs of individual agencies (Scott & Gorringer, 1989). Although nominally public sector wages were not linked to private sector settlements, wage gains tended to follow key national wage awards in the metals sector. The State Service Commission also enforced civil service tenure and complex appeal and grievance procedures.

The State Sector Act of 1988 homogenized private and public sector wage fixation and employment rights along the lines of the 1987 Industrial Relations Act (Walsh, 1991). The private sector labor relations regime greatly expanded the possibilities for enterprise bargaining while eroding centrally determined wages through compulsory wage arbitration. This changed behavioral incentives for key managers and their employees. Agency and SOE management now had the right to hire and fire at will, to reclassify and redeploy labor, and to set employee remuneration on an enterprise basis. Managers could cut separate deals with their workers on staffing levels, hours worked, productivity bonuses, and so forth, so long as they were in conformity with basic labor legislation. Because managers were now contracting with the Treasury and ministries to produce certain outputs, they had an incentive to use these new freedoms. The State Services Commission continued to exist but now acted as managements' agent in collective bargaining with workers at the enterprise (agency) level. Managers thus could behave like private sector managers in their search for greater efficiency and higher levels of work intensity (Gregory, 1987).

The 1988 State Sector Act also changed managers' employment conditions by shifting top managers into a new Senior Executive Service (SES). These managers lost civil service tenure and were placed on 2 to 5 year contracts. Their remuneration and career advancement depended on their ability to meet output targets contractually fixed in negotiations with the relevant ministry. Like private sector managers, the new SES now was personally responsible for the success or failure of their agency.

### **Reorientation to Outcomes**

The Public Finance Act of 1989 removed input-oriented controls over agency behavior and substituted output- and outcome-oriented controls, reinforcing the change in incentives for managers' behavior (Scott & Gorringer, 1989). The Treasury Department and Cabinet Policy Committee (see below) set hard budgets for agencies, but managers could spend this money freely so long as they achieved the output targets they had negotiated with Treasury and the relevant minister(s). Success in fulfilling contracts became the basis for judging managerial success. In principle, the state, via the Treasury and sitting ministers, now buys specified outputs (e.g., so many hours of teaching) from different agencies. Formal contracts specify the outputs the state is purchasing (at a given price) from a given manager's agency. Because outputs can be specified with some degree of precision, the treasury and ministers can judge the relative success of managers in fulfilling their contracts. These changes also facilitate the monitoring of managers to prevent self-capture by agencies.

Changes in the budgeting process complemented this shift towards output-oriented management. The budgeting process changed from a cash basis, line item budget to an accrual basis net budget. Managers could freely spend their budget as they saw fit, and supplement it with revenues from user fees, without having to stick to predetermined line item categories. So long as they did not change their net asset position, they could buy and sell equipment. Any change in their net asset position though required ministerial approval. This new capital investment had to be borrowed from the treasury or open market and carried interest charges. This allowed managers to make capital-labor tradeoffs, but only in market rational ways that also impeded self-aggrandizing behavior (Ball, 1990).

By introducing user-pays principals at all levels, the state completed the construction of markets for public services. Agencies had to pay for

inputs sourced from state agencies, including, as noted above, capital. Even in the health and education area user pays was introduced as a principle. For example tertiary students must now pay a charge equivalent to 5% of the cost of their education. Although Labour made only marginal changes in health, largely by raising prescription fees, the post-1990 National party government intends to introduce full market mechanisms into the health sector, allowing competition among public health boards formerly defined on a geographic basis, and between public and private providers. Hospitals and area health boards may be reconstituted as SOEs (Upton, 1991).

In general Labour avoided across-the-board cuts in agencies' real budgets, although it did cut health and education by 3% in 1988 and refused to compensate agencies for a 2.5 percentage point hike in the goods and services tax, similar to a value-added tax in 1989.

### **Holding Company Model**

The government also reorganized relationships among agencies and between agencies and the central fiscal bureaus. The Labour government centralized financial power into the Cabinet Policy Committee (CPC), in which the fiscal bureaus had a dominant voice. The CPS sat at the apex of a hierarchical set of issue-oriented committees, and determined overall budget levels for various ministries. The CPC set policy by translating the government's preferred policy outcomes into sets of outputs grouped on a functional basis. It then organized the purchase of these outputs from state agencies, using the threat of private sector competition to discipline agency bids. The post-1990 National party continued this arrangement, dividing spending control into a Cabinet Strategy Committee, which deals with strategic policy-making, and a Cabinet Expenditure Control Committee, which doles out the money and evaluates output. Under both systems contracts are intended to bind agencies to specific outputs. Successful agencies, that is, those with high rates of return and low costs for service provision, are rewarded with expanded resources via bigger contracts; unsuccessful agencies are wound down. Institutionally policy advice and policy-making have been separated from implementation into different agencies, with small policy-making agencies advising and contracting with larger implementation agencies (Boston, 1991; Roberts, 1987).

## Competition

In general, these changes have changed the incentive structure facing employees and agencies by introducing a real degree of competitive pressure, including competition from private sector firms. Competition was a clear goal of the fiscal bureaus, and they viewed private sector contestability in the provision of outputs as the key to forcing efficiency gains because it provided reference prices for outputs the state was buying (Easton, 1988; Treasury Department, 1984, 1987). Consequently they favored the removal of barriers to entry in all markets.

### DENMARK

If New Zealand presents the most far-going changes, Denmark presents an example of limited change. Despite the limited nature of change, the advice proffered by the fiscal bureaus, and thus the intended changes were substantially similar to that in the other three countries. The bourgeois coalition government assuming power in 1982 tried to introduce market pressures into the behavior of state agencies through a series of largely stillborn programs labeled privatization, deregulation, modernization, and debureaucratization.<sup>9</sup>

### Creating Wage Discipline

In December 1982, the bourgeois bloc attempted to introduce contracting out under the label of privatization. Much as Olson (1965, 1982) might predict, this ran into immediate opposition from public employees' largest union, Public Servants' Union, the Social Democrats, and the Socialistisk Folkeparti and was soon dropped. Consequently the bourgeois bloc could not make any substantial changes in the regime governing labor relations. Many public servants retain tenure, homogenous pay scales, and access to grievance procedures. Only a very limited form of merit pay has been introduced (Kristensen, 1987).

### Reorientation Toward Outputs

Change thus concentrated on reorienting agencies, and particularly managers, toward output because many of the changes could be achieved via administrative changes, not political ones. These changes concentrated in turn on budgeting processes, and resonate with similar changes in New

Zealand. First net budgeting was substituted for gross budgeting. Net budgeting allowed agencies to retain for their own use any revenues in excess of their budget allocation that they collected through user and other fees. Under the old system of gross budgeting, agencies had been required to turn over excess revenues to the Finance Ministry. Agencies immediately introduced user fees wherever possible. However, although this reduced pressure on the central state to provide funds, it did not substantially change the internal behavior of agencies. Many agencies simply abused their monopoly position in the market (e.g., for provision of licenses or postage).

Second, and more consequential, was agencies change from line item budgets to budget frames. As in New Zealand, the old system provided for line by line budget allocations without the possibility for shifting funds from one activity/category to another. Under the new framing system, agencies were given an upper limit (a frame) on what they could spend on personnel and administrative expenses, but were permitted to allocate funds pretty much as they pleased within those separate frames (Schick, 1988). Framing covered only the nonstatutory part of spending, including salaries. Framing thus had effects similar to parts of the 1988 State Sector Act in New Zealand.

Net budgeting plus framing partly freed agencies from detailed supervision, allowing the central administration to shift to output-oriented monitoring. But the absence of any changes in wage fixation or managers' career paths made it difficult to take advantage of these two changes. Although private sector wage bargaining has become less centralized in Denmark, there has not been any wholesale change in the law governing collective bargaining as in New Zealand, and public sector wage fixation continues to be a fairly centralized affair (Iversen, 1992). Consequently, the Finance Ministry has been unwilling to delegate authority over personnel matters to agencies for fear that agencies might hire unfireable employees. Instead it resorted to a preannounced 2% real reduction in spending annually after 1988 in order to enforce a 12.5% reduction in public sector employment by 2000 AD (Hjortdal & Wolf 1990). Combined with framing, this may force some internal reorganization and perhaps unofficial moves towards flexibility in work practices.

### **Holding Company Model and Competition**

Efforts to separate policy-making from implementation and to centralize financial control also ran into difficulties partly from the stresses of

coalition government and partly from resistance from below. The bourgeois bloc first tried to centralize control over budget allocations into a coordination committee in 1982. In the early years of the four-party bourgeois block this coordination committee forced the traditionally independent ministers to stick to financial targets laid down by the cabinet via the committee. Simultaneously the Finance Ministry's Budget Department tried to insert itself into the other ministries' internal budget-making processes. But by the end of 1983 the coordination committee met increasing resistance from individual ministers protecting their turf and from *Kommunernes Landsforening* (KL; the Federation of City and County Organizations), which ran the agencies that did most policy implementation. Hammered from without by a KL largely representing Social Democratic- and Venstre-controlled localities, and (as we will see) from within by one of the coalition's major parties, the coordination committee became an arena for deal making among competing agencies and groups, not a focus for restraining spending. Instead, coordinated bargaining between KL and the central state determined spending levels (Bentzon, 1988).

Venstre's and the Conservative's different ideas about reorganization, and their different social bases also divided the coordination committee. The Conservatives wanted to centralize power into the new committee. Representing the same kinds of large, export-oriented firms that had backed corporatization in New Zealand, the Conservative party appropriated Finance Ministry ideas and advanced *koncernledelse*—businesslike management. This implied basically what corporatization in New Zealand had implied, namely making agencies function like businesses, albeit businesses that happened to be state-owned. Within the fiscal bureaucracy the Finance Ministry's Budget and Personnel Departments also advocated centralization, and after 1987 began enforcing the 2% reduction in the personnel budget frame (Hjortdal and Wolf 1990).

But Venstre, which controlled many local governments, was ambivalent about this, preferring instead to hamper central government through real cuts in taxation. Venstre, which represented small urban business and farmers, campaigned for deregulation, narrow privatization, and tax relief. Neither program gathered much public support, and only a few laws were removed and a few operations privatized (Bentzon, 1988; Christensen, 1990; Ry Nielson, 1989)

Despite these conflicts, negotiations between the central state and KL did lead to a decline in the public share of gross domestic product (GDP),

bringing the deficit under control by 1986. But the impasse also opened up a space for experiments deriving more from a principal-agent view of the public sector's problems, and that mimicked the effort to separate policy-making from execution. To compensate for an end to spending growth, the central state, under the free city (*fri kommunerne*) experiment, permitted some localities to ignore regulations in an effort to focus on substantive outcomes. It also allowed these local governments to concentrate on specific local social problems rather than centrally determined problems. Functionally, this mirrored the policy and implementation split sought by reorganizers in New Zealand. But substantively the cities used this space to engage in a number of experiments that brought consumers into the public sector to run (so-called *brugerstyring*) and to let local agencies manage themselves (*selvforvaltning*). Rather than attempting to control rent seeking per se, these changes tried to raise consumer satisfaction with public services.

## AUSTRALIA

In Australia, the Australia Labor party's (ALP) 1983 electoral victory accelerated processes already underway during the prior Liberal-National party coalition government. This produced outcomes intermediate to those in New Zealand and Denmark, although Australia's federal structure makes a definitive statement impossible. Arguably, the three largest Australian states each deserves their own section, as these states are as large as the other three countries examined here and display almost as much diversity. The commonwealth (federal) government has put forward a softer version of New Zealand's changes, involving less privatization and fewer layoffs. At the state level, responses vary from Tasmania's (usual) torpidity to an almost New Zealand-like set of changes in New South Wales under the Greiner Liberal government in the late 1980s. Here we will concentrate on changes at the federal level, with an occasional glance at state-level similarities.

### Creating Wage Discipline

The Australian state decentralized control over internal personnel matters in two stages, and significantly changed the legal regime governing personnel practices for public servants. The 1984 and 1986 Public Service Acts exposed personnel to market pressures by reducing the

number of job classifications and allowing managers to redeploy, or hire and fire labor at will. The 1984 act also shifted control over staffing levels from the Public Service Board to the Ministry of Finance, whereas the 1986 act removed the right to appeal promotion decisions for the Senior Executive Service (Pusey, 1991). From December 1984 to June 1990 the commonwealth public service shed about 10% of its staff. As in Denmark, this decrease partly reflects flattening the hierarchy, as the federal government is largely involved in planning and funding programs that state-level employees actually carry out. But at the state level as well, the public service employment has fallen, and casual employment, particularly in New South Wales, has increased (Department of Finance, 1990; Evatt Research Center, 1989). Unlike New Zealand, Australia has retained a fairly centralized wage-setting system.

### **Reorientation to Outcomes**

As in New Zealand and Denmark, input-oriented control was relaxed in favor of control over global budgets and specification of outputs. The Financial Management Improvement Program (FMIP) and its subsidiary, Running Costs System and Program Budgeting, introduced in 1984, devolved spending authority to managers in ways functionally equivalent to budget framing in Denmark and the changes wrought by the 1988 State Sector Act in New Zealand. Managers have strict cash limits for personnel and other administrative expenses, but they can allocate this cash as they wish. Old line item controls on administrative costs and to an extent on staffing levels are gone. Managers can move a limited amount of expenditure forward and backward in time. The combination of the FMIP and the hire/fire provisions of the 1986 Public Service (Streamlining) Act gave public sector management essentially the same powers as in New Zealand. At the state level, New South Wales has been most aggressive in changing work practices in this direction, followed by Victoria and Queensland.

The introduction of portfolio budgeting in 1987 and the simultaneous imposition of an across the board annual 1.25% reduction in budgets, reinforced the reorientation of control toward outcomes and managerial flexibility. Portfolio budgeting brought together functionally related areas previously dispersed across several ministries and allowed ministers to make trade-offs among different programs inside a given portfolio. Portfolio budgeting also permitted agencies to retain any savings they made over and above the 1.25% "efficiency dividend" (i.e., cutback), and to use

those retained funds to reward individual productivity (Howard, 1990). As in Denmark, the federal government's inability fully to transform work practices largely controlled by other levels of government motivated this mandatory cutback.

### **Holding Company Model**

Structurally, control over spending has been concentrated into an Expenditure Review Committee (ERC), which is dominated by the Department of Prime Minister and Cabinet. The ERC strictly holds departments to multi year forward estimates of their spending. As noted above, the Ministry of Finance now controls all staffing levels. Similarly, the 1987 Machinery of Government reform consolidated 27 departments into 16, partly to eliminate middle-management jobs, and partly to subordinate departments controlled by old-style social liberals to those controlled by the new-style SES (Pusey, 1991). Further centralization is hampered by the existence of factional fights inside the ALP akin to those in the coalition in Denmark, and to divisions between the Ministry of Finance (responsible for budgetary matters) and the Treasury Department (responsible for economic advice and monetary issues).

Consequently, the separation of policy-making from execution in Australia is much closer to New Zealand than to Denmark. Pusey's (1991) fine-grained study of the SES elite reveals a commitment to flatter hierarchies, increased central control over spending levels (but not details), and a reorientation toward outputs via portfolio budgeting—in short a complete change in the *geist* of the Australian federal public service. Equally important, competitive pressures have been placed on agencies through a combination of full cost recovery user fees and pressures to contract out. As departments now charge each other for services, an opportunity exists for private sector firms to compete with internal public sector sources of goods and services.

The user fee principle has been extended into the welfare sector as well. In education, recent reforms have set universities into open but limited competition with each other, with private institutions, and with institutions abroad. Furthermore, through the higher education service charge, students are expected to contribute a percentage of their future earnings to cover the costs of tertiary education (Robison & Rodan, 1990). Means testing in the health sector has also become more extensive.

## Competition

Competition in the provision of more typically commercial services and goods (trading enterprises) has also increased, through a combination of privatization, deregulation, and contracting out. This process has tended to produce corporatized public sector firms rather than going the second step, as in New Zealand, to full privatization.

### SWEDEN

Change in Sweden also falls somewhere between that in New Zealand and Denmark in terms of quantity. It also differed in significant qualitative ways from that in the other three countries until the accession of the Conservative (*Bildt*) government in 1991. Where federalism constrained change in Australia, the Social Democratic party's (SAP) unwillingness to go all the way to open markets constrained change in Sweden. The SAP put forward reorganization proposals based much more on principal-agent problems than on rent seeking. Still, the overall thrust of policy was the same: to expose personnel to competitive pressures even if that was limited to competition among public providers. The Bildt government plans to introduce full public-private competition and significantly deregulate the economy.

## Creating Wage Discipline

As in the other three states, Sweden tried to introduce a more flexible use of public sector labor. But this was done in ways that at first enhanced public sector workers' operational flexibility and control over their own jobs. This avoided the threat of redundancy. The SAP government created a new Ministry for Public Administration (*Civildepartment*) in 1982, and then cut a deal with public sector workers. Workers agreed to be redeployed and to work more flexibly in return for guarantees of new jobs and training if they were made redundant (Gustafsson, 1987). From 1985 until 1988 the Civildepartment tried to increase worker participation as a way of increasing productivity, accepting the risk of opportunist agents in order to benefit from happier, engaged workers (Premfors, 1991; Saltman & von Otter, 1992; von Otter, 1983). But in 1988 the Finance Ministry successfully placed one of its former deputy ministers as head of the Civildepartment, initiating a change in policy.

Against the will of the public service union, the Civildepartment also attacked the so-called double imbalance in public sector wages in order to bring public sector productivity and wages more closely into alignment. Wage differentials increased in order to attract skilled labor, particularly holders of human capital, and wage setting was decentralized to the localities that do most implementation in order to hold down nonurban wages (Wise, 1992). This led to greater militancy by public sector unions by the end of the 1980s. Unlike the other three states though, there was no effort to set up a special corps of administrators along the lines of the Australian SES.

### **Reorientation to Outcomes**

SAP policy also aimed at decentralizing policy-making to local government and, as in Denmark, introducing elements of consumer management. As elsewhere, this was reflected in changes in budgeting processes. Block budgeting (aka budget framing) already existed for most state agencies involved in commercial activities (*Affarsverken*). This was expanded to local government via 3-year block grants (Schick, 1986, 1990). Freed from central control, many local governments, particularly those not controlled by the SAP, resorted to widespread contracting out. About 15% of public consumption is now contracted out (OECD, 1991). User pays also became widespread for nonwelfare state agencies. Virtually all locally owned public providers of goods and services were formed into corporations charging users on a full cost recovery basis for publicly provided private goods. The Bildt government intends to extend this to health and education as well.

### **Holding Company Model**

Sweden also separated policy-making and implementation. The central state shifted away from issuing detailed rules to localities and instead allowed them to pursue various means toward centrally determined outputs of services (Premfors, 1991). This included functional consolidation of local agencies previously fragmented over a number of central ministries and the concentration of policy setting over public administration in the new Civildepartment. As in Denmark, a number of localities were granted complete operational autonomy on an experimental basis.

## Competition

The SAP introduced limited degrees of competition through *kollektiv-kappestrid*—public or socialist competition — as a means toward more responsive services (SAMAK, 1989). This strategy came out of the SAP's understanding that the public sector problem was an principal-agent problem more than a rent-seeking problem. The segment of the SAP that controlled the Civildepartment from 1984 to 1988 thus favored giving public sector workers more operational autonomy, but subjecting them to consumer pressures by removing service monopolies. Thus in health care, for example, people were allowed to seek service from any provider. The SAP wanted to benefit from market-driven productivity increases, but not in a way that would undercut the universality and publicness of the welfare state, the centerpiece of their long post-war tenure in office. Consumers were permitted a choice between different public sector producers, particularly in the health sector. But the SAP only grudgingly permitted competition from, for example, cooperatives of parents in day care, or cooperatives owned by their employees. Despite this, many of the typical responsiveness problems associated with agents setting work schedules for their own rather than consumer convenience were solved (Saltman & von Otter, 1992). The Bildt government intends to introduce full competition from private service providers.

## CONCLUSION

Did these reorganizations work from a strictly technical point of view? A brief overview of each country suggests that public sector growth has slowed or been reversed, and that efficiency has increased, with commensurate effects on the fiscal deficit. During this period, total public sector employment in New Zealand declined by roughly 80,000, with the core public service losing about 29% of its staff. Some of this represented the effects of privatization. The fiscal deficit fell from 9% of GDP in 1984 to a fairly consistent 1% or 2% from 1988 to the present. The public sector's share of GDP has risen to about 39% as the government balanced the budget upward via tax increases, but net of interest payments has fallen (OECD, 1993b).

Reliable statistics on Danish government employment are not available. Fiscally, Denmark has held spending at roughly 1983 levels in real terms for four years, turning its 9.2% of GDP deficit into a 3% surplus by

1986. But in the absence of further reorganization, this deteriorated over the next six years, and Denmark has a 4.2% of GDP deficit projected for 1991. The public sector's share of GDP has fallen from its 1982 peak of about 60% to about 54% (OCED, 1993a).

In Australia, from December 1984 to June 1990 the federal government shed about 10% of its staff, while state government employment fell slightly. Fiscally Australia went from a 7% of GDP public sector borrowing requirement and a 4.1% federal deficit in 1984 to a 2% surplus in 1989, before falling back into deficit during the 1991/92 recession. Under its trilogy policy, the government has tried to keep the ratio of public spending, taxation, and deficits to GDP constant after bringing them into balance in 1987. In fact, public spending net of government trading enterprises fell about 5% of GDP from 1984 to 1989. The greatest change occurred at the federal level, where real spending fell by amounts ranging from 0.2% to 4.4% from 1983 to 1989 (OCED, 1992a).

Swedish public employment has been stable since the early 1980s. The fiscal situation shifted from a 7% deficit in 1982 to a 5% surplus in 1990, but then deteriorated sharply as the recession of the early 1990s hit Europe. Total public spending has fallen from its peak of roughly 66% in 1982 to about 60% in 1990 (OCED, 1992b).

None of this suggests anything more than an indirect connection between reorganization, and an elimination of rent seeking. Growth could have slowed for other reasons as well. However in all four countries public sector workers' wages have lost ground relative to private sector workers' wages, and in Australia and New Zealand real wages have fallen as well.

The absence of a direct connection does not obviate the importance of fiscal bureaucrats' ideas, however, for these reorganizations were not simply technical exercises. Rather, reflecting political purpose and will, they also were what Moe (1990) calls efforts at structural choice. Reorganizers tried to use institutional changes to constrain the future behavior of state agencies by changing the mix of incentives governing individual and agency behavior. The occasional effort to introduce consumer participation and worker self-management in Denmark and Sweden shows that alternative ideas based in principal-agent theory could have led to different outcomes than those brought about by the prevailing public choice theories.

Fiscal bureaucrats clearly intended for these administrative changes to decrease the power of small groups, particularly public sector workers, to seek rents, and to break up potential political coalitions between small groups of consumers and providers. Instead, to continue using Savas's (1987) language, fiscal bureaucrats and their extrabureaucratic allies

attempted to construct alliances of consumers, arrangers, or financiers of public services against producers of public services in order to push through reorganization. Whether or not public choice theory accurately captures the motivations of public sector workers and consumer groups, the process of reorganization has changed the political terrain on which they stand by changing the incentive structure they face.

Politically, the creation and insertion of a cash nexus between consumer groups and public sector producers also makes it difficult for consumers to capture state agencies. Shifting to markets changes the incentives for collective action. When nonmarket mechanisms determine the content, quantity, and sometimes style of service provision, it makes sense for consumers to organize to demand specific services, and to logroll with other groups, including insider producers, in order to maximize spending on their particular services. Consumers can rationally expect that they will gain more from this spending than they might lose from the incremental tax increase (present, or through deficits and debt, future) needed to fund it. Shifting to the purchase of services, even via vouchers, creates a tighter connection between personal taxes and service provision, precisely by removing that connection from inside the state. User-pays principles in an environment of competition (and thus the assumption of least cost provision of services) means that users have to bear the cost of additional services. As in markets, demands for additional quality or for services more closely tailored to consumers' needs should now take the form of exit to other providers/firms rather than voice to politicians. This relieves the state of responsibility for service quality and to a certain extent quantity. It makes private decisions about what public services will be consumed, shifting responsibility to the consumer.

This shift to market pressures inside the state also imposes discipline on the group fiscal bureaucrats really seem to fear most: other public servants. Even more so than consumers of public services, producers possess the compactness of numbers and the identity of interests that facilitate collective action in defense of the rents reorganizers claim is inherent to their work conditions. By opening service provision up to competition, fiscal bureaucrats can constrain producers from expanding this rent seeking activity and also pitting them against one another through market competition. Competitive pressure, whether from other public sector producers trying to maximize their income under the new competitive regime or private producers, limits the ability of any given group of public sector workers to protect job and pay conditions diverging from the general level in society. Increased competition does constrain pay de-

mands to levels in line with productivity increases, and contracting out can simultaneously expose public sector workers and agencies to the same kind of international competition firms in the exposed sector face. Indeed, multinational firms have entered the market in, for example, municipal garbage collection in Australia and in Sweden's health sector.

Finally, the political nature of reorganization can clearly be seen in its limitation to areas outside the old state. The core activities of the old state—policing, taxes, and most of all the fisc and central bank—remain largely untouched by the intrusion of markets. As many in New Zealand have noted, no one in Treasury has ever suggested that the Treasury's functions be contracted out. Introducing markets, in fact, tends to build a moat around these old core functions, insulating them from demands by other parts of the public sector for more money. Creating markets in the welfare state presents one of several possible responses to the fiscal stress that most industrial country governments experienced in the late 1970s and early 1980s.

Although this article describes events in four small countries, the lessons are not small. The conditions each country faced in the early 1980s—recession, fiscal deficits, sustained, perhaps increased demand for services—all are inherent to state and local government in the United States, and elsewhere today (Osborne & Gaebler, 1992). In Britain, where these fiscal conditions emerged in the late 1970s, and where the language of public choice theory is also pervasive, reorganization of the welfare state has proceeded along similar lines, particularly after the Local Government Act of 1988. The old administrative state is likely to lose further ground to the market-driven state over the next decade.

## NOTES

1. This distinction is artificial because all social welfare services could in principle be produced privately (as many are in the United States), and many accepted government services in areas with so-called natural monopolies are also amenable to private, albeit regulated, production. I maintain this distinction because most analysts typically separate out government-owned businesses from social services and natural monopolies.

2. In layman's terms, a 1% increase in GDP led to a greater than 1% increase in public spending; for example in Sweden, 1973-1978, a 1% increase in GDP led to 1.62% increase in public spending. The unweighted OECD average, 1973-1978 was 1.36; the unweighted average for these four countries was 1.45. All four countries lay above the median elasticity.

3. The Australians, for example, estimate that nontradeables account for about 30% of the production cost of Australian exports.

4. Interviews were conducted with a range of fiscal bureaucrats, unionists, politicians and business organizations in New Zealand (1988, 1991), Denmark (1990), and Australia (1991).

5. An additional set of critiques concern the creation of dependency on the welfare state, which will not be considered here. For a neoconservative view see Murray (1984); for a neoleft view see Wolfe (1990, esp. chaps. 4 and 5).

6. But see Offe (1984) for an argument against any single logic of collective action.

7. Some argue that a disjuncture between consumer demand and service provision is good where consumers' limited time horizons might lead them to underconsume merit goods like education and preventative health care, whose benefits are only apparent over long periods of time. See Therborn (1987) for a systematic argument.

8. The usual caveat applies here, especially with regard to federal Australia; change has not occurred in all policy areas (yet?), nor evenly across policy areas. But there is sufficient similarity to warrant the general assertions made here.

9. The coalition comprised two large parties, the Conservative Peoples party and Venstre (Agrarian) Party, and two small parties, the Christian Peoples party and the Center Democrats. After the 1988 elections, the two smaller parties were ejected in favor of a middle sized, socially liberal but fiscally moderate party, Det radikal Venstre. Highly fragmented and lacking an absolute majority in parliament, this coalition in practice governed at the sufferance of the largest party, the Social Democrats. Much legislation reflected compromises between the Conservative party and the Social Democrats. In 1993, the Social Democrats assumed power again.

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