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Government, Public Servants, Interest Groups and the Public

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University of New England, Armidale, 11-14 February 1991

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Abstract

Stigler formalised a model of government regulation in which politicians and bureaucrats act as firms supplying regulatory services in a market where interest groups demand these services. Ruttan extended this model to incorporate dynamics, and allow for a change in the equilibrium supply of regulatory services.

Stigler and Ruttan's analytical models are utilised to enquire into two cases of the provision of government agricultural services. In the first case, the supply of state government department agricultural is examined, focusing principally on the role of public servants. In the second case, these models are utilised to enquire into the current enthusiasm for the decentralisation of agriculture departments' headquarters in New South Wales and Victoria. In both cases it is concluded that the provision of services is less than optimal from a social welfare perspective.

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"It was the former French President Charles de Gaulle who said that since a politician never believes what he says, he is surprised when others believe him." (Seccombe 1990)

1. Introduction

The functions and workings of government have been a rich field for economists to exploit over recent decades. The "economic" theory of regulation has provided the opportunity for methodological imperialists to extend the domain of dismal explanations beyond economics and into politics. The current challenge for economists is to use this theory in a constructive way: not merely to explain the actions of politicians and bureaucrats in terms of grubby objectives, but to use the theory to find better ways of channelling regulatory venality into socially useful ends.

As long as there is a government, there will be governmental intervention in the economy. If there is reason to expect that intervention is Pareto sub-optimal - because forms of intervention, alternative to that chosen, are potentially available that make all better off and none worse off - then there is a role for economists to examine both the content of individual decisions and the mechanism that permitted such sub-optimal decisions to be chosen. Or, if there are distributionally-superior alternatives to those chosen, then there is a similar rationale for economic analysis and prescription.

The focus of this paper is on competition among regulators as a mechanism for increasing the transparency - and, possibly, the efficiency - of regulation. Randall (1987, p.231) argued that economic information - in his case, benefit-cost analysis - is an "essential lubricant" of endogenous government models. However, since government has maintained until very recently rigorous control of its information - the Official Secrets Acts being the most obvious manifestation of control - and since Freedom of Information legislation is only a partial antidote, there may be other more useful mechanisms for enhancing information availability to lubricate the information flow. Tragically, however, any such mechanisms are likely to fall victim to Heisenberg's uncertainty principle: that the very act of observing a system may change the system (cf. Boulding 1970, pp.120-121).

The principal example of regulatory competition examined in this paper concerns decisions by the NSW and Victorian Governments to relocate the Head Offices of their agriculture departments from the metropolis to the provinces. These decisions were similar in content, but contrasted radically in style. In the NSW case, information about the relocation proposal was selectively managed to accentuate the positive. Subsequent bureaucratic competition enhanced the flow of information about the proposal; however, the increased information availability did not alter the nature of the decision because there were no previously poorly-informed interest groups who could intervene decisively to affect the proposal. In the subsequent Victorian case, information was made readily available which highlighted the political nature of the proposal.

2. Economic theory of regulation

2.1 Static model

Prior to the "economic" theory of regulation, the economists' dominant paradigm of government

intervention - if only implicitly - was the "public interest theory": government was distributionally neutral, and intervened in the economy to eliminate undesirable practices and increase efficiency. In this paradigm, government could be regarded as a "benevolent despot", identifying allocative inefficiencies in the economy, and determining and implementing optimal policies for overcoming these inefficiencies. An alternative explanation was that - regardless of how regulation first arose - the regulators, either politicians or bureaucrats, eventually became "captured" by and the servants of interest groups.

Classical reasons for government intervention in the "public interest" paradigm included that some goods and services were "public" because of "market failure": their optimal level of output would only be provided through collective, especially government, intervention. Additionally, even where private markets provided goods and services, "market imperfections" might result in a socially sub-optimal allocation of resources. For example, the level of external diseconomies such as pollution would only be optimised through government intervention such as pollution taxes or controls on emissions.

In retrospect, the surprising feature of the "economic" theory of regulation is that economists were so slow to develop it. Even the most cursory acquaintance with European political history would have shown that the theorists were simply describing how bureaucrats had always behaved. The notion of public servants as disinterested implementers of government policy is, at best, only a nineteenth century concept (myth?) in the English political tradition. Stretching back to the Middle Ages, professional public servants and their predecessors were drawn from or were closely aligned to the ruling elite, but had objectives that were not necessarily identical to those of the ruler(s). In surveying the development of government in Europe in the second half of the sixteenth century, Elliott (1969, §§3.1-3.2) observed the workings of a political system almost perfectly congruent with an "economic" theory of regulation. Some features of this system - with details that are particular to this historical period but with universal themes represented in the "economic theory of regulation" - are presented in Appendix 1. Deacon (1989?) documented the fleeting ascendancy - during the period 1894-97(?) - of the notion of an "independent" public service in NSW.

Prior to 1970, possibly the archetypal form of government intervention was macroeconomic stabilisation in the Keynesian tradition. The oil price shock of 1973 and the subsequently topsy-turvy world of stagflation in the 1970s, and the uneven growth experience of the 1980s, undermined confidence in the widespread acceptance of government intervention that had characterised the dominant strand of Western economic thought after the Second World War. Of course there had always been dissidents, especially those trained in the Chicago tradition, but this dissent was a minority religion. With the "failure" of Keynesianism after 1973 (but cf. Blinder 1988) came an inversion of economic thought. Suddenly the non-interventionist minority became the high priests of a new economic orthodoxy. This change in dominant ideology in the economics profession was legitimised politically, firstly, by the election of Thatcher in the United Kingdom and, secondly, by the ascension of Reagan in the United States.

At the macroeconomic level, the upsetting of the Keynesian ascendancy was associated with technical issues such as rational expectations and the Lucas critique. At the microeconomic level, although the antecedents of the anti-interventionist revolution reached back at least to Coase (1937), Stigler's (1971) paper was the quintessential statement of the theoretical reasons that government intervention - "regulation" - was likely to be sub-optimal.

Stigler's "economic" theory of regulation was strictly orthodox in the neoclassical microeconomics tradition: there was a demand for and a supply of regulation. The demand for regulation was a relationship between the type and/or amount (hereafter "level") of government intervention

demanding by interest groups and the price they are prepared to pay for this regulation. The supply of regulation is the relationship between the "level" of government intervention that the "government" is prepared to supply at any given price. The "currency" of the regulation market, while nominally expressible as money, might take many forms. The currency of the regulation market for politicians might include donations to political parties or individual politicians, assistance in kind to political parties or individual politicians, or agreements not to campaign against political parties or individual politicians. Since the "government" includes not only politicians but also bureaucrats, the currency of the regulation market also potentially includes payment in cash or kind to bureaucrats, or lobbying on behalf of individual bureaucrats or groups of bureaucrats for valuable preferment.

In this framework, the optimal level of regulation is that where there exists an equilibrium between the supply of and demand for regulation. Since supply and demand in the regulatory market are unlikely to be well-behaved functions as in other markets - in particular, "regulation" is not a homogeneous good available at or demanded at a range of levels depending on price - it is not feasible to talk of the intersection of the supply of and demand for regulation. However, in the long run at least, a primitive notion of equilibrium may be argued to hold - i.e. where government is not prepared to supply any more regulation because no interest group is prepared to pay government's asking price. Nothing in this regulatory model relates directly to the costs of implementing and enforcing the regulation government is prepared to supply, nor the gross costs and benefits of this regulation on the economy as a whole. Therefore there is no necessary congruence between the optimal "level" of regulation determined in the market for regulation, and the economically-efficient level of regulation evaluated in terms of the optimal "level" of regulation to eliminate market failure or market imperfections.

The "economic" theory of regulation model - or "neoclassical economic theory of politics" (cf. Tisdell 1982, p.517) is formulated in terms of explicit action. However, since politicians also operate in the realm of "motherhoods" and "feel good politics", it turns out to be important in the present case to consider "signalling" and well as action. "Signalling" is the provision of information to the politician's clients, and may encompass messages of sharing a common set of ideas at one end of a spectrum to the bounds of permissible conduct at the other. In Australia, the concept of "decentralisation" has been a classic device for signalling to rural constituencies that politicians share their aspirations, even if the practical implementation of decentralisation has rarely been effective (cf. below). Of course, decentralisation has also been a classic vehicle for the implementation of good old-fashioned pork-barrelling.

2.2 Dynamic model

Stigler's economic theory of regulation is essentially a static model (cf. Terry et al. 1988). In the absence of any other changes, an equilibrium would be reached between the "level" of regulation the government is prepared to supply and the price that interest groups are prepared to pay for this "level" of regulation. In practice, however, no equilibrium "level" of regulation is ever actually achieved because interest groups keep articulating demands for new regulation, and governments keep providing these new regulations. A useful way of understanding the dynamic nature of the market for regulation is via Ruttan's theory of "induced institutional innovation".

If interest groups demand new regulation it is because the expected benefits of this new regulation exceed the costs that the beneficially-affected interest groups demanding the regulation expect to bear (in terms of the price government extracts for providing the regulation, and any necessary compliance costs). While an interest group may successfully lobby for a particular form or intensity of regulation, there are likely to be other groups who are disadvantaged by that regulation.

However, these other groups were unsuccessful in preventing implementation of the regulation because they were unwilling or unable to pay the price necessary to block the regulation.

The equilibrium level of regulation is conditional upon constancy of the government's price for maintaining the regulation, constancy of the value of the regulation to the successful interest group, and constancy of the cost of the regulation to the groups who unsuccessfully opposed its implementation. Any or all of these values may change if:

- . imperfect knowledge of the effects of the regulation once implemented leads to "unintended" consequences of the regulation for those beneficially or detrimentally affected by the regulation, and leads to a reassessment by interest groups of the net returns of the regulation and the optimal price they are prepared to pay for amendments to the regulation;
- . the prices of inputs/outputs in markets for goods and services affected by the regulation change through exogenous changes in the supply of or demand for these inputs or outputs, or through the development of new technologies;
- . other regulations are subsequently developed which affect the profitability of production for a regulated product, or there is unexpected synergy between existing regulation and new regulation which leads to a reassessment by interest groups of the net returns of the regulation and the optimal price they are prepared to pay for amendments to the regulation; and/or
- . new technologies change the market for regulation (particularly information technologies which change the cost of government finding out about interest groups' demands or change the cost of interest groups' lobbying government).

The effect of such changes is to change the value at the margin of the existing "level" of regulation, and will give rise to changes in the disposition of regulation by:

- . changing the dominant interest groups, with consequent changes in the optimal "level" of regulation; and
- . favouring an increase/decrease in the absolute level of regulation depending on changes in the relative valuations of regulation by government and interest groups.

2.3 Public servants in a regulatory world

How then do public servants act in a Stiglerian/Ruttanian world of interest groups, and government dispensing regulation for a price. The principal issue is that public servants are an integral part of this Stiglerian world. Thus public servants are not anonymous, insentient cyphers performing to their masters' (and/or mistresses') voices. Public servants at every level are central actors in the market for regulation. Every request a public servant receives is an opportunity for some individual or group to gain, represents a possibility for some other individual(s) or group(s) to be beneficially or detrimentally affected, and provides the opportunity for the allocative efficiency of markets for conventional goods and services to be beneficially or detrimentally affected.

Similarly, every request a public servant receives is an opportunity for private gain by a profusion of public servants and plethora of politicians - and here are specifically excluded the possibilities of graft and corruption (but cf. the "Keating 5" in the U.S. Senate and Rex Jackson in N.S.W.). In a

mundane way, a request for assistance from the public represents an opportunity for individual public servants to impress their superiors by appropriately - even if not efficiently or even effectively - dealing with the matter. The same event set provides senior public servants with the opportunity of demonstrating to their political masters and/or the general public the efficiency and diligence of their organisations, and their loyalty to their political masters or "the people".

This event set also provides the politicians with the opportunity of demonstrating to the voting public the success of their stewardship of government, and the appropriateness of re-electing to power of this most worthy set of political operatives. This very same event set - if badly handled - may also provide to politicians not in power the opportunity to prove that the present incumbents are incompetent, venal or worse, and thus should be thrown out of office at the first opportunity and replaced by the much preferable members of Her/His Britannic Majesty's Loyal Opposition (or even by would-be politicians aspiring to be in Parliament).

Under an "economic" theory of regulation, therefore, one possible approach that could be adopted by public servants is to ask the following questions about any proposal they are requested to deal with, whether requests come from "outside" lobby groups or "inside" interest groups such as other public servants (either senior or junior) or politicians:

- . does anyone benefit by the proposal; if so, whom, and by how much?
- . are the markets for private goods and/or services affected by the proposal and, if so, how and by how much?
- . does the proposal interact positively or negatively with any other government regulation and, if so, how and by how much?
- . what are the immediate and long run costs of implementing the proposal, in terms of the costs of government actions, and the costs borne by private agents either individually or collectively or collectively?
- . is anyone detrimentally affected by the proposal; if so, whom, and by how much?
- . what are the net effects of the proposal (apart from the income transfers)?

The costs of asking - or, at least, answering - these questions for every action by every public servant would be enormously expensive. The implementation of such a system of checks would result in the bureaucracy grinding to a halt almost instantaneously. The costs of answering these questions must clearly be compared to the benefits of doing so - but here, however, there is an immediate infinite regress problem. The costs of answering the above set of questions cannot be known unless they have been previously asked and answered. In general, there can only be a pragmatic answer to this conundrum: because the nature of much public service work is repetitive, public servants will in general have a good idea of the costs of answering the above set of questions. Indeed, in many instances, they may well be able to answer a priori the above set of questions.

Where individuals make requests to public servants, the estimated costs and benefits are likely to be answerable via a partial equilibrium framework.

Bureaucrats, as well as politicians, also engage in "signalling" and use various devices to inform their political masters that they [the bureaucrats] share their [the politicians'] political agenda. For the bureaucrat, signalling is of particular importance when a government changes, especially for

those bureaucrats who feel they have been, or are perceived by others to have been, closely identified with the ancien regime.

The kind of areas where it may be desirable to answer the full set of questions posed above include: development of new advisory, research or regulatory programmes; changes to the organisation of the bureaucratic organisation involved; or the development of new regulatory mechanisms including new legislation, new regulations or new bureaucratic bodies.

It is here that the counterfactual issue of not being able to know regulatory outcomes with certainty becomes important, and the issue of whether or not public servants are acting as the clients of particular interest groups.

2.4 Bureaucratic competition

A model of government which emphasises decentralised decision market in a pseudo-market framework almost necessarily implies the existence of competition between bureaucratic agencies. Such competition may be for resources, for influence, or in the making of particular decisions.

Bureaucratic competition has a variety of dimensions. Firstly, bureaucratic competition clearly uses resources in a less efficient way than an unitary bureaucratic decision. However, secondly, by encouraging a plurality of views, bureaucratic competition may result in a better bureaucratic decision, and so the prime focus should be on the net value of the decision, not solely on the cost of achieving this decision. Thirdly, the presence of bureaucratic competition encourages more openness in the decision-making process ceteris paribus - leading to more information in the public domain as to what bureaucratic decisions are in the process of being made, and the nature and implications of these decisions - thus leading to a greater range of interest groups being involved in the decision process. Whether or not a wider array of involved interest groups is desirable in an economic sense depends on whether such involvement biases the ultimate decision away from the economically-optimal decision. In an equity sense, bureaucratic competition which increases the amount of publicly-available information about bureaucratic decisions making also increases access to the bureaucratic decision making process for those individuals and interest groups for whom the cost of obtaining information about this process is high.

In the remainder of this paper, competition of the last kind is examined with reference to a particular decision: the decision of the NSW Government to relocate the Head Office of its agriculture department to the regional city of Orange.

3. Relocation of NSW Agriculture & Fisheries

The relocation of its Sydney Head Office to Orange by NSW Agriculture & Fisheries (NSWA&F) is very small beer.¹ Such a decision has greater significance, however, if it is the harbinger of a new approach by the NSW Government to decentralisation, that most sacred of country cows. Following the NSWA&F decision, it was announced that the Western Lands Commission would be relocated to Dubbo, and parts of the Department of Lands to Bathurst and other regional centres (cf. Lagan 1989, Moore 1989a). The Premier was reported as favouring additional decentralisation (Dick 1989a, Austin 1989a). Other potential candidates for decentralisation included the Department of Water Resources (then still digesting a relocation from the Sydney CBD to Parramatta), and the administrative units of Soil Conservation (then still digesting a relocation from the CBD to Chatswood), the National Parks and Wildlife Service (then still digesting a relocation from Hornsby to Hurstville) and Forestry (anon. 1989c; see also Stevens 1989a, Moore 1989a). This enthusiasm for decentralisation appears very much an ex post rationalisation: the NSWA&F

decision appears to have been more closely related to a damage control exercise following substantial public sector job losses in country areas of NSW following the election of the Greiner/Murray Government in 1988 (cf. anon. 1989e, last paragraph). An irony of the flurry of feathers over the NSW&F move was a contemporaneous report to the NSW Government on decentralisation (Business and Consumer Affairs, 1989); in launching this report, the Minister for Business and Consumer Affairs acknowledged that virtually all previous and current decentralisation policies had failed (anon. 1989a). One of the report's recommendations was to "test the perception that infrastructure can be provided more inexpensively in non-metropolitan areas" (Business and Consumer Affairs, 1989, p. 43, emphasis added).

The NSW&F Head Office decision is also of some significance in assessing the credentials of a Government avowedly pursuing rational economic principles in its public policy programme, but which is clearly prepared to trade off rationality and political opprobrium especially when National Party interests are involved:

After a year and more of chopping into the rural sector, closing the odd hospital and courthouse, abolishing the better part of 8,000 railway jobs, shutting Family and Community Services offices and amalgamating motor registries, the Government has decided it's time to put a little money back to soothe the pain.

A few trips into the bush have made the Premier aware of the hostility that some of the cuts have caused and his coalition partners have reinforced the view that it's time to go easy.

And while the Greiner Government has been determined in its refusal to subsidise businesses to move out of Sydney, it is quite prepared to subsidise its own departments to move out.

Business and Consumer Affairs (1989, p. 38, emphasis added) argued that:

... there may be strategic advantages [sic] in relocating some Government Departments or administrative units to country centres, with consequent cost savings to Government ...

In this context, "strategic" seems to imply "political", and it is hard to escape the conclusion that a backdoor was being provided for "signalling" the Government's concern about its rural constituency, traditional pork barrelling. Other related decisions include the backdown by the NSW Government on the initial decision to close NSW&F's Regional Veterinary Laboratory at Armidale following intense political pressure (indeed, the role of the Laboratory was expanded following reversal of the closure decision) and the on-again/off-again rumours concerning the relocation of the NSW&F's Biological and Chemical Research Institute at Rydalmere in the metropolitan area (Dick 1990a, Stevens 1990a, Larriera 1990a).

The NSW&F decision also has a somewhat larger importance as it has been used as a precedent by the Victorian Government to justify relocation of the Head Office of its Department of Agriculture and Rural Affairs to some, as-yet unspecified, country location. This policy issue is also interesting because of the contrasting attitudes taken by the respective decision makers in releasing information about the background to the decision. The NSW Government selectively managed the release of information about the release of its information (cf. below), whereas the Victorian Government has published a consultant's report which clearly contrasts the economic and political aspects of the decision (section 4).

In a brief account of the relocations of the Australian Security Intelligence Organisation and the

Commonwealth Department of Employment, Education and Training to Canberra, it was noted that:

There appears to have been no considered analysis - no lessons for the future - by government of the consequences of moving the central administration of a department like DEET from Melbourne to Canberra. (anon. 1989d)

The media also picked up this theme with the NSW A&F relocation. Willis (1989) noted that:

The moral of the story: while taking the Agriculture and Fisheries Department to the country has a pleasant, vote-catching ring, it would appear that in the absence of proper planning and consultation it can create more headaches than it is worth.

A major justification of the present paper is, therefore, to evaluate aspects of the relocation of the Head Office of NSW A&F to Orange to draw "lessons for the future" for NSW public service units.

3.1 Historical background

On 21 August 1989, the Minister for Agriculture and Rural Affairs, Mr I. Armstrong announced that the Head Office of NSW Agriculture & Fisheries would be relocated to Orange by December 1991. The reasons given for this relocation were (Armstrong 1989a):

. A "substantial" reduction in accommodation costs (NSW A&F was paying rent for its Sydney Head Office site variously reported in the range \$3.2-3.6m p.a.) which, since it was claimed that the growth rate of rents at Orange would be lower than Sydney, would result in significant savings. The Minister's Press Release of 21 August 1989 actually claimed that there were:

... preliminary estimates indicating that savings to taxpayers over a decade could run into hundreds of millions of dollars. (Armstrong 1989a)

These huge estimated savings actually included estimated rent reductions for other NSW Government departments which might move out of CBD office accommodation into the McKell Building which NSW A&F had occupied (Moore 1989b, 1990b).^{1a} The NSW A&F relocation was thus indirectly linked to grandiose proposals to construct a "Whitehall"-style building adjacent to Parliament House in Macquarie Street (Moore 1990z?). With the NSW Government's failure to sell the existing State Office Block in Phillip Street to fund this scheme, it appears to have sunk without trace.²

Subsequent estimates of the Orange relocation suggested savings of \$40m over ten years. This latter estimate was also subsequently amended by the Minister:

A saving of in excess of \$17 million will be made by relocating from Sydney over the first ten year period and this will increase to more than \$56 million over a twenty year period. (Armstrong 1990a)

In December 1989, the Minister was reported as follows:

When Mr Armstrong announced the move in August, he said the [office rental] savings were one of the principal reasons behind the move. (Moore 1989c)

. NSW A&F was finding increasingly difficult to attract staff to promotion positions in

Sydney because the high living costs in Sydney, such as housing, were making many officers reluctant to take promotions from country NSW to Sydney. In October 1989 - two months after enthusiastically extolling the financial virtues of the move - the Minister was reported as saying:

... the principal reason for the move was not to save money, but to provide the department's 2,500 country employees with better job prospects. (Moore 1989b)

It was also indicated that the relocation would speed up the existing process of decentralisation that began in April 1989 when it was decided to relocate Principal Officers and their administrative support staffs to Orange.³

. Better offices for staff.

. Easier access for staff to much of the State's farm industry; and would put the Department's officers in the bush where its clientele was located (anon. 1989e).

. A huge, long term boost to the regional economy [of Orange], since Head Office wages alone amounted to more than \$12m p.a.

. Lower on-costs: "from everything to having to drive less distance, shorter travelling times, moving about the town, moving to the airport, moving to the local radio station, moving to the local paper" (Lagan 1989)⁴

The Minister went on to add (Armstrong 1989a):

This is the most significant decentralisation move by any government department in Australian history ... It underlines the resolve of the NSW Coalition Government to revitalise the rural and regional economy, and through it the entire State economy ... The announcement was the start of a new era for decentralisation in NSW. Efforts by previous governments have had mixed success, but this move indicates just how determined the Greiner/Murray government is to achieve results. In particular this move is a milestone in the history of NSW agriculture ... By bringing the Department's Head Office closer to the farm industries we can ensure even more gains in the already outstanding quality of advice and service from the Department to our farm and farm service industries.⁵

The Minister expected that the bulk of the staff would relocate to Orange (Lagan 1989):

'We don't anticipate any sackings whatsoever, but there may be some people who wish to retire and some people who wish to transfer,' Mr Armstrong said.

...

At least 70 per cent of the department's professional staff are expected to agree to move to Orange, and up to 60 per cent of the administrative staff. [see a similar comment by the Director-General of NSW A&F in anon. (1989e)]

A significant proportion of the Head Office staff was less than impressed with the announcement, especially since it had not been discussed with them. The relocation announcement itself was made at a public ceremony in Orange prior to the Head Office staff being officially informed, and staff first received confirmation of the proposed relocation via the media. The announcement also followed several months of rumours that some sort of decentralisation move was planned (Dick 1989b, Quiddington 1989, Willis 1989). A survey by a public sector union a month after the

announcement indicated that of 238 respondents, 8% would relocate, 29% were undecided, and 63% would not go (Dick 1989b). A subsequent, departmentally-sponsored survey of staff attitudes by Price Waterhouse Urwick found that 21% of staff would definitely relocate, 28% were undecided, and 49% would not relocate (Moore 1990a?).⁶ This survey revealed considerable disquiet over the manner, as well as the fact, of the proposed relocation:

The report says that more than 60 per cent of employees were so angry about the way in which the relocation was handled, that even if the move was called off, they would still seek work elsewhere. (Moore 1990a)

In response to the announcement, the unions served a log of claims on the employers, which was subsequently "put on hold" because the prospect of further country relocations prompted a more wide-ranging review of award conditions for transferred officers (Stevens 1990b). But the genteel cut-and-thrust of public service industrial relations was hardly appreciated at Orange:

The Mayor ... said yesterday Public Service Association demands for special benefits for the transferred Agricultural Department employees were an insult to the people of Orange.

Chamber of commerce vice-president ... said yesterday the people who wrote the log of claims should 'bite their bums'. (Lehmann 1989b)

3.2 Benefit-cost analysis

The NSW Government claimed to have undertaken economic analysis of the NSW A&F Head Office relocation prior to its announcement of the move. The rapid reduction in Departmentally-estimated benefits - from "hundreds of millions of dollars" over a decade, through \$40m over a decade, to \$17m over a decade - is an indication of potential difficulties of this kind of analysis. Campbell (1989) produced his own, characteristically-robust, benefit-cost analysis of the proposal:

The proposal ... is absurd ... None of the superficial arguments adduced in favor [sic] of the move ... compensate for the disadvantages in terms of the reduction in administrative efficiency and poorer service to clients it would entail.

...

The Minister for Agriculture's comment that the move to Orange puts the department in the middle of the State and nearer to farmers is equally preposterous.

Campbell (1990) furthered his argument:

... widespread opposition to the relocation of the Department of Agriculture and Fisheries to Orange ... highlights the obstinacy of the Premier and the Minister for Agriculture to any reconsideration of what was essentially a stupid and ill-considered sop to National Party sentiment. The views of the professional staff of the department ... should throw serious doubt on the wisdom of relying on National Party counsel to the exclusion of rationality.

As noted above, the lack of analysis of such relocations is an indicator that evaluation of their potential and actual consequences is justified as a guide for possible future similar actions.

3.2.1 Background

There are four levels at which an analysis like the proposed relocation to Orange could be conducted:

. the level of the decision-making unit - in this case, from the point of view of NSW Agriculture & Fisheries. At this level it is possible to ignore some of the costs - and also perhaps some of the benefits - of the proposal. For example, if the relocation was accompanied by special supplementations from the State Treasury to cover costs under the Crown Employees (Transferred Officers Compensation) Award or the costs of physical removal of office equipment, then the decision-making unit might ignore such costs since they did not form part of the unit's normal budgeted expenditure.

. the level of the State Government. In this case, any cost borne by or accruing to the State Government would be included in the analysis. The special supplementations noted above as possibly excluded in the previous level of analysis could not be excluded in this case.

. the NSW level. Any costs or benefits that accrued within NSW, whether to the State Government or to other institutions or private citizens, could be included at this level. For example, the net benefits of decentralisation from the Sydney region - if any - could be included at this level. The net benefits of decentralisation are not simply the regional benefits of increased income to Orange but are the net benefits of the lower real resource costs (if any) of State public servants being relocated to country areas. Other benefits/costs that might be encompassed at the State level include individual officers' private costs of relocating to Orange not compensated for by the Crown Employees (Transferred Officers Compensation) Award; increased communication costs (if any) between the Department's Head Office and its clients (particularly its Sydney-based clients - e.g. it is understood that the Department investigated the feasibility of purchasing an aircraft to reduce the expected increased communications costs of relocation to Orange).

. the national level. At this level, any costs or benefits accruing to individuals or organisations outside NSW would also be included. The most likely elements in this area would be increased costs borne by other States' agriculture departments, and Commonwealth departments, in accessing NSW A&F at Orange rather than Sydney.

Analysis at either of the State or national levels would clearly be desirable, but the cost of identifying and estimating all the likely costs and benefits at this level precludes effective analysis in the present paper. In the argument below, it is assumed that the analysis should be effected at the level of the State Government.

3.2.2 Benefits of the proposed relocation

Six benefits of the proposed relocation of NSW Agriculture & Fisheries' Head Office to Orange have been formally identified. These are:

- . reduced rental costs
- . increased opportunities for attracting regionally-based staff to Head Office positions
- . better access to industry
- . decentralisation benefits (not simply the gross income benefits to the Orange region, but the net reduction in State's use of real resources by locating the Head Office at Orange)
- . better offices for staff⁷

- . lower on-costs

The discussion below focuses on the first four of these possible benefits as being of likely greater significance.

Other possible benefits of the proposed relocation may also be suggested:

- . if substantial numbers of staff choose not to relocate to Orange, this would provide an ideal opportunity to radically restructure NSW&F's Head Office, and possibly greatly reduce overall Departmental staff numbers

- . those staff not genuinely committed to agriculture would be encouraged to leave the Department⁸

- . closer proximity to the Minister⁹

Only the first of these other possible benefits merits detailed discussion.

(a) Reduced rental costs

(i) Bureaucratic competition

The expected reduction in Head Office rentals for NSW&F formed a primary justification for the relocation to Orange, and comprise the major component of the financial part of the benefit-cost analysis of the proposal. But the original estimates by NSW&F as to the economic value of the relocation of its Head Office appear to have been unenthusiastically received by the State Treasury. Although Treasury was not finally called upon to fund construction of the required new building,¹⁰ it appears to have vigorously opposed the proposal on financial grounds.

For two months from the announcement of the proposed relocation in August 1989, NSW&F had the front running in presenting the financial benefits of the proposed move, estimating benefits from \$40m to "several hundred million " dollars (section 3.1). Some time between August and the beginning of October, State Treasury entered the fray. By 3 October, information had found its way to a Herald journalist that the annual savings were at most \$1.5m p.a.; thus, even with a zero discount rate, the maximum savings over a decade would have been \$11.5m and substantially less than the Minister's and NSW&F's claim of \$40m. The Minister claimed that this \$1.5m annual saving was "not inconsistent with his claim in August that the move would save the Government between \$40 and \$100 million over the next decade" because of potential savings from moving other NSW government departments into NSW&F's Sydney Head Office (Moore 1989b). It was subsequently claimed that Treasury estimates contained no reference to potential annual savings of \$1.5m (Stevens 1989c).

The next salvo in the bureaucratic war was available the following December, by which time an enterprising Herald journalist had obtained the combined evaluation by Treasury, NSW&F and the Department of Administrative Services of the relocation proposal, despite the obvious reluctance of the Government, the agriculture Minister and NSW&F to release the complete version of its analysis (Moore 1989a):

Mr Armstrong released a summary [of the cost-benefit analysis] along with a claim that

Treasury had estimated that savings from the move would be as much as \$1.5 million a year.

Asked for a copy of the full report, his office said it was "a huge document", too big to release. But 47 days after a Freedom of Information request was submitted, the full report, all 21 pages of it, was made available.

It's two reports really, a Department of Agriculture report (four pages long) and a series of Treasury and Administrative Services appendices. It is clear from the appendices that Treasury would not put its name to the Agriculture report.

Analysis by Treasury so revealed suggested that "at least \$5 million will be lost over 10 years" from the proposed relocation. Treasury argued that (Moore 1989c):

The financial analysis results indicate ... only a marginal advantage if a \$20 million building is assumed.

The Treasury disputed the department's estimates and that the cost of constructing a building in Orange could be as low as \$13 million.

The "\$5m loss" of the headline arises from comparing Treasury's estimated cost of NSW&F's Head Office staying in Sydney for 10 years (\$27.6m) with the 10 year cost of a \$30m building in Orange (\$32.3m). If a \$20m building was constructed, the gross gains over a decade if NSW&F shifted to Orange were \$2.1m (Moore 1989c). In July 1990, the Minister announced the winning tender for the Orange office, which was reported to cost \$21.437m (Moore 1990b) with NSW&F occupying nearly all the building. It is not known whether this estimated cost related only to the building's shell, or whether fit-out was also included.

It was elsewhere reported that one element of the reduced estimated financial benefit of the move was that:

... estimates of rent in Orange had been understated originally, leading to an understatement of how much money would have to be spent in the move" (Stevens 1989c).

The apparently-final salvo in this skirmish was fired by the agriculture Minister and NSW&F when announcing the successful tenderer for the construction of the Orange Head Office (Moore 1990b):

'What we included in that estimate [\$40 million to \$100 million in savings] is the opportunity cost of moving out of the McKell Building and providing access for another government agency to move in there from the CBD, and the huge savings that would accrue plus the odd \$50 million that would accrue from moving out of Sydney and to Orange', Dr Sheridan said.

The "odd \$50 million" presumably refers to the Department's estimated 20-year savings from the move to Orange. These estimated savings of \$17m and \$56m for 10- and 20-year periods respectively, appear to have been derived from new estimates that were additional to the combined evaluation in 1989 by Treasury, NSW&F and the Department of Administrative Services of the relocation proposal:

A spokeswoman for the Treasury said she could not comment on the savings until Treasury had seen a copy of the financial analysis prepared for the Department of Agriculture and

Fisheries.

No common ground appears to have been achieved between NSW&F and Treasury as a result of nearly 12 months' skirmishing. NSW&F will presumably heave a collective sigh of relief when it completes relocating its Head Office to Orange and finds itself 250-odd kilometres west of Treasury. Whether this separation will actually operate to the benefit or detriment of NSW&F will depend on whether physical proximity to the centres of political and financial power - in the large at least, apparently still based firmly in Macquarie Street - or whether the increased devolution of power to individual departments and the political muscle of its Minister enable NSW&F both to maintain an adequate level of total funding and an increased power over the disposition of its budget.

In the apparent absence of an agreed common ground between NSW&F and Treasury on financial aspects of the Head Office relocation, it is useful to attempt to reconstruct this analysis to provide lessons for the future in analysing proposed major government office relocations.

(ii) Reconstructed benefit-cost analysis of Head Office costs

Sufficient information is available from media reports to reconstruct an analysis of the economics of the office rental aspect of the relocation. Final Departmental estimates of the rental savings resulting from the Orange relocation are approximately \$17m over 10 years (e.g. Armstrong 1990a). As shown in Table 1, savings of this magnitude require the following assumptions:

- . the Orange rent is on average approximately half the Sydney rent, coupled with a real discount rate of less than 1% p.a.;
- . the Orange rent of about 60% less than the Sydney rent with a real discount rate of 4% p.a.;
- . the Orange rent about 70% less than the Sydney rent coupled with a real discount rate of 7% p.a. (which is Treasury's nominated discount rate for assessing public projects: (NSW Treasury 1988);
- . the Orange rent is 80% less than the Sydney rent at a real discount rate of 10% p.a.; or
- . some interpolated rent reduction/discount rate combination.

Moore (1990b) reported Ministerial estimates that the rental in Orange would be \$240/m² in 1992 with increases in line with the CPI, and Stevens (1990c) reported corresponding estimates of \$370/m² in Sydney in 1992. Total rentals in 1992 of \$2.04m (for 8,500 m²) in Orange and \$4.63m (for 12,500 m²) in Sydney can be derived from this data. Thus the estimated savings in Orange are of the order of 55%, which implies the Department was using a real discount rate in the range 1-4% p.a. in its analysis, well below the recommended Treasury rate of 7% p.a. This estimate of saving is consistent with the Minister's original prediction that:

... under the option of leaseback from a private developer the rental costs could be little more than half those of the McKell House [sic] city building. (Armstrong 1989a)

These results suggest that the Department was using a very low discount rate in order to derive favourable financial results.

Further, a substantial proportion of the estimated rental savings were derived from a smaller office

in Orange, rather than the move itself. Assuming as correct the Department's estimates that there would be a 50% total rental saving from moving to Orange and the estimated gross rental saving was \$17m, then the implied gross rental for the Sydney building over 10 years was \$34m. If the Sydney office had been reorganised so that it was the same size as the new Orange office, then it would have been approximately 30% smaller and this would have saved approximately \$10m. Thus on the Department's own estimates the gross rental savings from the move to Orange itself would have been at most \$7m - i.e. 60% less than the Department's estimate. Using Treasury's preferred discount rate of 7% p.a. suggests gross savings over 10 years from the relocation would have been substantially less than \$7m.

Of course, if the Department is correct in its forecast that Sydney office prices would rise faster than those in Orange - and noting that NSW&F appears to have a contractual arrangement which ties rental increases in Orange to the CPI - then the average savings on a per square metre basis would be higher. No public estimates are readily available of the likely increase in rents for a building like NSW&F's Sydney Head Office.^{10a}

Excluded from the actual costs of constructing and fitting out a new Head Office in Orange for NSW&F are the "transactions costs" associated with this move. Principal among these was the appointment of Baillieu Knight Frank Pty Ltd as the Development Manager overseeing the relocation (Armstrong 1989b). The costs of development management appear not to have been made public: assuming development management is 5% of the building project cost, then these costs are approximately \$1m.

A final factor possibly excluded from the rental estimates is the cost of renting the site on which the new Head Office will stand.

(iii) Supply side estimates

The issue of the appropriate office rental can also be considered from the perspective of the commercial provider of the new building in Orange. The central issue here is whether it is possible to estimate the probable real rental cost of the Orange office space, to corroborate the official estimate of \$240/m² for office accommodation at Orange.

A private developer providing a building on leaseback to the public sector will be interested in the following to calculate the minimum rental for office space:

- . to amortise the project cost to provide a sinking fund to recoup the cost of the building over its project life, which is a function of the private firm's expectation of the life of the building and its discount rate
- . the length of the project life
- . the discount rate appropriate to the private developer, including a margin for risk (possibly small in providing facilities to the public sector but, particularly in a relatively small regional centre like Orange with a low demand for office space of the type being constructed, which also depends on the fine print of the contract including the expected tenancy of NSW&F)
- . annual income additional to the sinking fund

Rather than compute the rental based on these assumptions, a crude estimate of the Orange Head

Office project's necessary minimum return is estimated using a combined estimated risk free return on capital and a margin for entrepreneurial activities and risk. For a building costing \$21.437m (Moore 1990b), the estimated annual rent is shown in Table 2 for a range of combinations of the combined rate of return. The implied profit rate corresponding to the announced rental rate on the Orange building is approximately 9.5% p.a. Note that this estimated profit rate is only calculated from the building cost; inclusion of the cost of land and any other services provided by the developer (e.g. building fit-out if this was not included in the announced capital cost of the building) would increase the total capital cost of the project, and thereby reduce the profit rate implied by the announced rental rate.

The implied real profit rate of 9.5% p.a. seems unduly low for a private sector project, even for a building destined for a government tenant. If the more realistic required commercial profit rate of 15% p.a. is assumed, this implies a real rental in 1992 of \$378/m², and a total annual rental of \$3.21m. Using this estimate, and Stevens' (1990c) reported estimate of a 1992 McKell Building rental of \$370/m² in 1992 dollars, it would appear that the Orange accommodation would cost more than the existing Sydney Head Office accommodation.

A final factor excluded from the above estimates is the cost of renting the site on which the new Head Office will stand. Assuming a \$1m site, and a real return on capital of 15% p.a., then the annual site rent is \$0.15m and the 10-year discounted site rent is \$0.75m.

(iv) Alternative projects

An odd feature of the Orange relocation proposal by NSW&F was that only the option of a brand new building in Orange appears to have been considered. Subsequent to the relocation announcement, however, NSW&F took over some of the buildings on the Bloomfield Hospital site just outside Orange as temporary offices for staff relocated to Orange prior to occupation of the new building. Extensive buildings, already owned by the State Government, were available on this site. These buildings could have been refurbished as Head Office accommodation for NSW&F, and probably at a considerably lower cost than renting a new building. Staff may actually have preferred this location as it was actually in the country rather than the Orange urban area - and thus they could have possibly smelled the sheep and pigs, even if not the wheat - and this site also had good recreational facilities and extensive parking facilities.

One of the possible drawbacks of the existing Bloomfield buildings from NSW&F's perspective was that any refurbishment of these buildings would have required direct State Government expenditure - cf. the commercial financing of the new Orange building. The need for direct Government expenditure would considerably have strengthened the hand of the Treasury in opposing the Head Office location.

(b) Increased opportunities for attracting regionally-based staff to Head Office

Real estate prices in Sydney, and the dislike of many country-based officers of the metropolitan lifestyle, are likely to have deterred many officers from seeking positions in Head Office. This barrier to promotion should not, however, be overstated: there have been cases where country-based officers have sought transfers to the Sydney Head Office because of perceived advantages of the metropolitan area. Principal among these advantages is the provision of wider opportunities in tertiary education than can be offered in country towns (e.g. access to tertiary courses for the professions of medicine, law, engineering and dentistry).

Head Office positions may be divided into three classes:

. those where there is likely to be a better supply of labour in a regional town than in the metropolitan area. Those positions likely to be filled by officers with an agricultural science background will probably fall into this category. Note that this does not necessarily mean that officers in such positions when the relocation was announced would relocate to Orange, since there may be non-job-related factors also influencing their final decisions. However, the opportunity cost - i.e. the next-best salary available - of Sydney-based officers in these positions is likely to be substantially lower than their current salaries, and the greater proportion of these officers is likely to relocate.

. those positions where there is likely to be a worse labour supply in a country town than in the metropolitan area. Potential officers whose promotional prospects depend more on movement between government departments, or movements between the public and private sectors, than on promotion within the Department are less likely to offer their services in a country town. For these officers, a job promotion is less likely to occur in Orange than in some other area, and so promotion would require a change of residence. Three types of officer likely to fall into this class would appear to be librarians, computer programmers, and fisheries officers oriented to coastal and deep-sea fishing. Another job category possibly falling into this class are lower-paid wordprocessing and clerical officers, where - if the local labour supply in Orange is insufficient to meet the Department's demand - the jobs may be insufficiently remunerated to induce potential officers to move either from other country towns or the metropolitan area to Orange for these jobs.

. those positions where there is likely to be an unchanged labour supply with the move to a country location. These positions will include broad classes of officers indifferent to location (e.g. economists) or officers whose positions are sufficiently well-paid to induce geographical mobility (e.g. more senior administrative and clerical officers). For administrative officers, for example, the supply of suitable staff from country offices of NSW&F (and, indeed, other Government departments and the private sector) may increase with the Head Office relocation, since these officers would not have to face the higher real estate costs implicit in accepting a transfer/promotion to Sydney. Conversely, the supply of suitable staff from metropolitan offices may be substantially reduced following the Head Office relocation to Orange, despite the real estate advantages of relocating to a country area, if there are other reasons - e.g. family and friends networks - which are also important in deciding work location. Note that an unchanged labour supply situation with this relocation does not mean that officers in these positions when relocation was announced would necessarily be induced to move, since there may be personal costs of transfer which may preclude their relocation.

Thus, relocation to Orange is principally likely to beneficially affect only one group of officers in Head Office at the time of the relocation announcement: those officers preferring a country lifestyle for personal and professional reasons. People occupying these positions - while relatively senior - constituted a relatively small fraction (less than 20%) of Head Office positions. This analysis appears to be confirmed by experience since the relocation move was announced: approximately 70% of staff employed in the Sydney Head Office when the relocation was announced have since left NSW&F.¹¹

In summary, therefore, it is likely to be extremely difficult to conclude with certainty that the positive staff benefits from moving some categories of staff to Orange exceed the negative benefits of moving all other categories of staff. This conclusion will be especially difficult to establish if the

productivity of specialist agricultural positions relocated to Orange actually falls.

(c) Access to industry

One of the many rationales for the Head Office relocation was easier access for staff to much of the State's farm industry and putting the Department's officers in the bush where its clientele was located (anon. 1989e). The "easier access" argument clearly applies to a region a hundred or so kilometres around Orange but, as argued by Campbell (1989), Sydney is the hub of transport communications in NSW and it is thus not necessarily true that country location means better access to all the State's farm industry.

The access question is intimately related to the argument that the Department's officers should be in the bush where its clientele is located. It is not true that the Department's clientele only resides "in the bush" and, even if it does, it does not necessarily mean that Orange is conveniently located to all its clients. For example, the NSW fishing industry is predominantly located in coastal regions, and insistence on relocating the Division of Fisheries from Sydney to Orange will substantially reduce the Department's access to its clients (anon. 1990a, Moore 1990c). This raises the question as to who comprises the "clientele" of the Department's Head Office (but not necessarily the Department as a whole). The clients of Head Office may be categorised as follows:

. policy makers: the Minister and his staff; other government departments (e.g. Premiers); industry groups (e.g. NSW Farmers Association, fishermen's associations, chemical companies, marketing associations); statutory marketing authorities; individual firms; conservation groups; consumer groups;

. technical issues: the Department requires interaction with Treasury over budgetary matters and financial control; it has the need for close relations for other government authorities providing complementary services to the farming community (e.g. Soil Conservation Service; Water Resources Commission; Rural Assistance Board; statutory marketing authorities) and general community (e.g. Health Commission); to commercial firms whose activities the Department regulates (e.g. regulation of agricultural chemicals and stockfeeds, Flemington markets); to legal and industrial services concerning the Department's role in regulatory functions (e.g. the law courts, legal profession) and for industrial matters affecting its employees (Industrial Commission, trade unions); general community (e.g. Department's library is a primary agriculture library in NSW)

. NSWA&F's own staff: Head Office includes the remaining centralised functions of the Department with regard to staff administration, and some remaining centralised technical functions (although a decision had been taken just prior to the Head Office relocation announcement to shift many specialist positions to Orange).

. information: in general, the metropolitan community has superior information sources (e.g. libraries, universities). Although this relative superiority has declined with developments in transport and communications in the past few decades, the metropolitan area still has better information resources than do regional towns.

Clearly, not all these clients need to be served by a Sydney-based Head Office of NSW&F. Equally clearly, the cost of servicing many of these clients will be substantially higher in Orange.¹² The key question is, for Head Office as a whole or for particular sub-groups of it, could the functions of the unit be most efficiently undertaken in Sydney or Orange? This efficiency question requires an analysis of the benefits and costs of operating in either location. Even if the productivity of some Head Office groups increases because they are closer to their clients, there is

every likelihood that the productivity of most other groups may decline because they are more remote from theirs. Given the then-existing location, the comparison also requires an analysis of the costs of relocating the Head Office (cf. section 3.3.3). Notions that farmers comprise NSW&F's clients, and therefore a country location for Head Office is desirable are much too simplistic a basis for justifying the expense of a relocation.

(d) Decentralisation benefits

It was noted above that the present analysis concentrates on benefits to the government of moving the Department's Head Office to Orange, and hence the decentralisation benefit falls outside the present bounds. However, the general failure of decentralisation policies over the last two decades (Business and Consumer Affairs 1989) - formally recognised by the NSW Government's recent decision to remove payroll tax relief from decentralised businesses - does not inspire confidence that there are net community benefits from large-scale decentralisation.

Some of the negative effects on NSW Agriculture & Fisheries of relocating to Orange could be offset if this relocation were also followed by the relocation of other Government departments to Orange. For example, if there were a number of Government departments relocating to Orange, the disincentive effects for some staff of not having available non-agriculture promotional opportunities would be somewhat reduced. However, this benefit could be offset by the negative effects - particularly in the short run - of relocating other departments to Orange. For example, it has been reported that real estate prices in Orange jumped 10% on the announcement of the Department's move and that - since the possibility of this move had previously been mooted - there had probably already been a speculative increase in real estate prices (Willis 1989). If a larger number of government bodies were relocated to Orange, the short run increase in real estate prices would deter many officers - particularly those who are currently country-based - from relocating to Orange, at least in the short run, because the real value of real estate would probably fall over the medium term once the short-fall in locally-available housing had been overcome.

At a more general level, the decentralisation benefits to Orange could be large if the capital cost of the new NSW&F building substantially stimulated regional activity and/or if the reported estimates are accurate that the relocation will inject annually an additional \$20m into regional income. The estimated flow-on effects of the relocation appear, however, to be surprisingly small. Using the "DECON" model and NSW&F estimates that 430 positions would be relocated from Sydney (compared to initial Departmental estimates of over 500) and that about 30% of Sydney staff would actually relocate (compared to initial NSW&F estimates of 60-70%), Phibbs (n.d., p.7) estimated that:

... the total employment impacts of the relocation will be about 570 jobs (430 direct and 140 flow-on) and that the total population change will be about 830, comprising of 770 direct and 60 flow-on persons.

Phibbs (n.d., p.6) noted that the weakness of the impact arose because:

... the purchases of the Department within the Orange economy will be relatively limited. The main items would be some contract cleaning, telephone, energy, some car servicing, and some small local orders. The remaining purchases would come through the centralised Government stores system and State contracts which limits [sic] the ability of local firms to supply the Department. The major economic impact of the relocation will stem from the wages and salaries payments to staff, which are estimated to be in the order of 25 million per annum.

The total decentralisation benefits for NSW as a whole should, of course, consider not only the direct benefits to Orange of the relocation, but also any other costs to other parts of the State, including any increased communications costs with NSW&F in Orange.

(e) Possible radical restructuring and reduction in staff numbers

If considerable numbers of Head Office decide not to go to Orange in the event of the proposed relocation, this would provide the Department with an opportunity to radically and cheaply restructure Head Office, and possibly the Department as a whole. The cheapness of the restructuring arises because, by inducing staff to resign rather than make them redundant, the Government saves itself the cost of redundancy packages. Further, inducing large sections of the Head Office to resign provides the opportunity for a more thorough-going and rapid restructuring without the necessity of using vacancies created by attrition as the primary vehicle driving the rate at which restructuring could occur.

With an annual Head Office wages bill of some \$12m, a 10% cut in staff would reduce costs by \$1.2m p.a., or \$8.43m discounted over 10 years.

A possibly unwelcome constraint on the Department's ability to effect a satisfactory restructuring will be the officers who choose to transfer to Orange. Officers with a low opportunity cost outside the Department will be forced to transfer to Orange, irrespective of their personal inclinations. Some of these officers will be those whose specialist skills lock them into agriculturally-oriented occupations; some will be those approaching retirement who cannot afford to take early retirement because of superannuation constraints; others will be those whose opportunity cost is low because of low levels of skills or low productivity. In all cases, the Department will be forced to transfer these officers to Orange even if - in the case of the near- to-retirement officers - they may not necessarily remain in Orange for a long period. In the last two cases, these officers may constitute a major barrier to thorough restructuring.

Once Head Office is located in a regional centre, the original justification disappears for locating many positions in regional centres after the completion of the Department's regionalisation in 1980-81. In this period, the justification for locating many officers regionally was to get them away from Head Office - and, incidentally, out of the metropolitan area. Once Head Office itself is located in a regional centre, this argument is no longer valid. It is likely to be more efficient to locate together those Special and Principal officers who require close interaction. Since, on the Department's argument, Orange is more central to NSW than is Sydney, there are possible large efficiency gains for locating in Orange those Special officers who are currently regionally based in other centres. Similar arguments may also apply to administrative and clerical officers. Indeed, the relocation of Head Office in Orange may materially affect the entire justification for having regions, especially the Orange region.

(f) Summary

It seems unlikely that the gross benefits of moving the Department's Head Office to Orange are greater than the gross benefits of retaining its current location. Once the costs of the relocation are considered (following section), it is highly improbable that there is an economic rationale for the move.

3.3.3 Costs

As previously outlined, the costs of relocating the Department's Head Office to Orange fall into three categories: direct costs, indirect costs and adjustment costs.

(a) Direct costs

Direct costs are those that relate to the physical transfer of Head Office. Clearly, these include the physical cost of moving furniture (if any; but, if no furniture is moved, then the cost of entering the new building must be increased by fit-out costs such as furniture); materials (e.g. files); equipment (e.g. computers, especially the Department's mini); library etc. To the physical cost must also be added the preparation costs: i.e. of deciding what material should be moved. Preparation costs may require considerable staff time to cull files, officers' effects, laboratory equipment, library materials etc. prior to removal, and thus induce either losses in productivity if existing officers are utilised for this task, or costs of employing temporary staff.

The other direct cost of removal are transferred officers' entitlements under the Crown Employees (Transferred Officers Compensation) Award. Ignoring major restructuring, transfer costs will be incurred whether or not substantial numbers of Head Office personnel actually transfer to Orange. If large numbers of current Head Office staff do not go to Orange, then correspondingly large numbers of staff will have to be recruited from elsewhere. Unless these new recruits come from outside the NSW Public Service, newly-appointed officers will also be entitled to similar benefits under the Crown Employees (Transferred Officers Compensation) Award. Hence the best estimate of the expected cost of these entitlements is the number of positions actually transferred to Orange, multiplied by the average entitlement. If the average gross entitlement is of the order of \$10,000 per officer, then the total direct cost of relocating officers will be of the order of \$5m in 1989 dollars (cf. Stevens (1989b) who reported a union estimate of \$4m).

(b) Indirect costs

Indirect costs are those that arise as a consequence of the proposed move. Chief among these are the likely increase in communications costs between Head Office staff and their clients. The majority of this client base, even if strongly associated with agriculture, is generally based in the metropolitan area (see above).¹³ The consequences of the relocation for communications with Sydney-based clients, who comprise the more important client base of Head Office, must therefore be:

- . an increase in the cost of travel for Head Office staff between Orange and Sydney-based clients;
- . an increase in telecommunications costs (telephone, fax) between Orange and Sydney; and
- . a reduction in productivity because of increased travel demands, lower effectiveness of electronic versus personal communication, and because some functions will no longer be performed as their costs would be too high.

(c) Adjustment costs

NSWA&F clearly expected to take to Orange the bulk of its staff in Head Office at the time of the relocation announcement (Lagan 1989, anon. 1989e). Even once it became clear that there was considerable opposition among its then-existing Head Office staff to moving to Orange, the Minister is reported to have taken a sanguine view of the consequences (Moore 1989b):

Other bureaucrats who may not wish to leave could be readily replaced without any cost to the Department, he said.

'An economist is an economist, an accountant is an accountant and a solicitor is a solicitor', he said.¹⁴

These views contrast starkly from those within the Department, even among those who readily made the move to Orange:

Mr Roth, who is the the [sic] Principal Veterinary Officer of Endemic Diseases said: "It will be horribly unsettling for the Department for the first three or four years." (Central Western Daily, 1990)

The inevitable consequence of being "horribly unsettled" is reduced productivity from the Department's Head Office.

Adjustment costs of the Department's move of Head Office can be divided into costs prior to the move, and subsequent costs.

(i) Prior costs

All activities consume resources, and the planning of a major relocation like that proposed is no exception. Considerable resources will have to be devoted over the period preceding the move planning a huge range of activities, including the nature and characteristics of the new building, how the move will occur, and servicing the needs of individual officers whether transferring to Orange or remaining in Sydney. These activities will divert considerable resources away from the standard functions of Head Office staff. Less resources will be available for servicing all the clients of Head Office, and thus the total service available from Head Office over this period will be reduced, perhaps dramatically so.

However, the principal adjustment cost is likely to arise from the transfer to other Departments, or resignations, of Head Office staff not wishing to go to Orange. Recruitment of replacement staff in this period could be extremely difficult, as permanent staff may be impossible to attract. Particularly if large numbers of Head Office staff do not transfer to Orange, Head Office may be increasingly staffed by temporary staff until the move actually occurs. These temporary staff will require a higher level of supervision than the permanent staff they replace but, if significant numbers of supervisors and administrative staff are also lost, this supervision will not be available. Thus a major cost of the proposed move is likely to be a dramatic fall in Head Office productivity for the whole of the period prior to the relocation.

These problems have been recognised by NSW A&F. Originally it was planned to relocate the Sydney Head Office all at the one time, and directly into the new Orange building. The Department realised subsequently that some productivity losses could be avoided by taking temporary office accommodation at the Bloomfield Hospital site just outside Orange, and shifting staff to Orange as they decided to go, or locating staff replacing non-movers who left the Sydney Head Office directly at Orange before the new building was completed.

(ii) Subsequent costs

After the physical move is completed, the productivity of Head Office will not return to its former

level for some time. The greater the proportion of existing Head Office staff who do not transfer - and thus the larger the number of staff that it would be necessary to recruit after the relocation - the greater will be the adjustment costs subsequent to the move.

One cost which will be both a prior and a subsequent cost is the extra recruitment costs induced by the decision to relocate Head Office. Those officers choosing not to transfer to Orange will need to devote resources to searching and applying for new jobs, and being interviewed for these jobs. Subsequent to the resignations or transfers of those officers who choose not to go to Orange, not only will the Department have to devote resources to recruiting new staff, but potential new staff will have to devote resources to searching and applying for these vacant positions, and be interviewed for them.

Ignoring the personal costs of relocation, some estimates may be made of the Departmental costs of recruiting staff to replace those not relocating to Orange. Lynch (1990) reported estimates by researchers at the Centre for Industrial Relations Studies at the University of Melbourne that the cost of turnover for a white collar worker was up to \$15,000. Adopting a conservative estimate of \$10,000, and assuming that 55% of NSW&F's Head Office staff would leave the Department as a consequence of the relocation, then the staff cost of replacing these employees is some \$2.97m.

3.4 Conclusions

A summary of the cost-benefit analysis of the relocation of NSW&F's Head Office to Orange is presented in Table 3. Although most of the necessary data cannot be specified in numeric terms, reasonable estimates can be made of the sign of the costs and benefits. Using the reconstructed rental costs for NSW&F's Orange Head Office, it is clear that the move can only be economically beneficial if at least 10% of the existing staff of Head Office are shed. Alternatively, if the benefits of staff reductions are ignored, then the net financial benefits of the relocation appear to be approximately zero.

In the bureaucratic dust-up between State Treasury and NSW&F, the principal argument amounted to one about the cost of a new building in Orange. Relying on Public Works Department estimates, Treasury considered that the cost was likely to be of the order of \$30m. NSW&F originally estimated about \$17m for a building, and subsequently the winning tenderer won with a building estimated at \$21.437m; although this amount does not appear to include the cost of the land, fit-out of the building or the Development Manager's fees. These exclusions suggest that the final cost of the building will be at least in the area of \$25m, if not finally quite as high as Treasury's estimate of \$30m. This suggests that, on the financial argument, Treasury was likely to have been closer to a realistic estimate than NSW&F.

More interestingly, however, both NSW&F and Treasury appear to have been preoccupied with the cost of a building in Orange, and to have ignored other costs associated with such a major relocation. Inclusion of these other cost elements in the analysis substantially increases the costs of the relocation. Even if there were no net gains to the State from the proposed relocation, it could be argued that the associated costs were justified on decentralisation grounds. In this case, it is still desirable to estimate the total costs of the relocation proposal in order to calculate the total costs of the rather small estimated decentralisation benefits that are likely to accrue from the proposal.

4. VDARA's Move to the Bush, Bendigo or Ballarat

4.1 Historical background

On 25 September 1990, Mr B. Rowe, Victorian Minister for Agriculture and Rural Affairs, announced that a country location would be investigated for the Department of Agriculture and Rural Affairs' Head Office which employed 450 people (Rowe 1990a). The Minister indicated that the proposal was:

... part of the Kirner Government's aim to address the social and economic issues facing provincial cities and towns. (Rowe 1990a)

The Minister also announced that an agribusiness consultant and grazier, Mr R. Polkinghorne, had been commissioned to chair a task force to prepare a benefit-cost analysis of the proposal. Mr Polkinghorne, however, appears to have prejudged the outcome of the investigation, by being quoted as follows in the Minister's Media Release:

"There are a number of obvious benefits for an agency such as DARA, considering relocation to the country. It will mean better service for clients, the rural community in general and sound economic use of Government services," Mr Polkinghorne said. (Rowe 1990a)

Echoing earlier NSW rationalisations for the relocation proposal, the Minister said (Rowe 1990a):

"We are looking at the feasibility of taking our Head Office to country Victoria, that's where our clients are ...

And, despite the Minister's claim that:

"Clearly, there are many direct benefits to country Victoria in locating DARA Head Office amongst agricultural industries". (Rowe 1990a, emphasis added),

the consultant's initial task was:

"... to establish criteria for identifying the needs of DARA, clients and the on-going management and support for agricultural industry research initiatives." (Rowe 1990a)

The consultant's terms of reference were (Rowe 1990a):

1. Should DARA have a Head Office outside Melbourne?
2. Where should DARA relocate?
3. Implications of such a move to [sic] staff.

and the consultant would also consider (Rowe 1990a):

- a. To provide a cost-benefit analysis of relocation based on:
 - . accommodation and other capital costs and savings;
 - . recurrent budget costs and savings;
 - . the advantages presented by different possible sites.
- b. To assess all relevant personnel issues including:
 - . staff and career mobility [sic]

- . any impediments to staff relocation
 - . consultation with staff associations during and after the study.
- c. To determine likely benefits to the local area and rural Victoria generally, with attention to:
- . employment, housing, local demand on services and retail;
 - . access to DARA services;
 - . DARA access to agricultural and other local industry;
 - . other agricultural groups and/or statutory authorities relocating.
- d. To assess similar relocation moves in other States and overseas, particularly New South Wales and New Zealand.

The consultant presented his report on 30 November (Polkinghorne 1990), and the Minister announced on 10 December 1990 that DARA's Head Office would be relocated either to Bendigo or Ballarat, with a final decision on location being made in late January 1991 (Rowe 1990b). The Minister's Media Release also exhibited a politician's exuberance for large numbers:

"The report concluded DARA's move could boost a region's economy in excess of \$200 million over a 20 years [sic] based on present values ...", Mr Rowe said. (Rowe 1990b)

As in NSW, the relocation was heralded as a model for subsequent moves:

DARA's move will be a model for other relocations of Government departments to rural Victoria.

The Polkinghorne Report mentions Rural Finance Corporation, Grain Elevator Board, V/Line, Victorian College of Agriculture and Horticulture, Rural Water Commission, soil conservation groups and city based statutory marketing authorities; [sic] as likely candidates for a move to rural Victoria. (Rowe 1990b)

Unlike his NSW counterpart whose Ministerial office was to remain in Sydney except for a token presence in Orange, the Victorian Minister was personally enthusiastic about the move:

"I welcome the recommendation that 'the Minister move with the Department and be seen to manage the portfolio from the new location'. I believe that it is essential that a Minister works closely with the department head office, and look forward to working in the new head office to be situated in rural Victoria." Mr Rowe said. (Rowe 1990b)

Mr Rowe may not, however, remain as agriculture minister long enough to enjoy the benefits of country living.¹⁵

4.2 Polkinghorne Report

Polkinghorne (1990) reported extensive investigations of the Head Office relocation proposal. These investigations included:

- . nature of Head Office functions, including investigating in detail the functions of identifiable sub-groups:

The principal clients of DARA's head office are the farming organisations, statutory marketing authorities, government agencies, DARA regions, research units and the metropolitan-based interest groups.

Individual farmers have little direct contact with head office, but deal with DARA at the regional level, or through industry organisations. By contrast, a significant number of individuals in the metropolitan area telephone or write to the department, frequently in support of an interest group's cause. (Polkinghorne 1990, p.8)

The primary and secondary contact areas were investigated for each Head Office function:

The heavy weighting towards Melbourne contact [for all Head Office functional units] emphasises the need that easy Melbourne access be a key criteria [sic] in selecting an alternative location.

It is believed that this pattern is heavily influenced by the extensive regionalisation already achieved within DARA, which has essentially left a core of executive functions at the head office. These groups, along with the Minister, have a high degree of central agency contact not seen at lower levels of organisations. (Polkinghorne 1990, p.21)

. travel between Head and regional offices, including a sample survey of offices:

... a significant number of locations will be disadvantaged in terms of travelling time to head office by adoption of the relocation proposal.

...

While accepting that many of the functions may well be marginally more easily performed and effective if operated from a metropolitan base, the majority could be readily performed at a provincial centre, providing it has relatively easy access to Melbourne and the airport. (Polkinghorne 1990, pp.23-24)

. costs and benefits borne by DARA

It was concluded that:

The NPV for DARA of \$2.2 million over 20 years ... at zero growth differential [between the growth of office rents in metropolitan and country areas] or \$3.5 million at 1% differential ... is not regarded as significant. (Polkinghorne 1990, p.25)

Part of the reason for the low net benefit of country relocation was identified as:

... due to the building size required, new construction is required in the country. This prohibits the use of smaller, lower cost buildings, which are available at present. The only available buildings of adequate size identified were the Esso building at Sale and the Pyramid building at Geelong. (Polkinghorne 1990, p.25)

The Sale site was deemed locationally unsuitable and, ironically, for the Pyramid site at

Geelong:

A firm price was requested but is not yet to hand ... but the indicated rate was well above the Wellington Parade [i.e. metropolitan Head Office] cost. (Polkinghorne 1990, pp.25-26)

. cost/benefit to State Government

This analysis included the personal relocation costs of staff, office relocation costs and office fit-out costs as well as office rental costs:

The analysis shows a 20-year NPV of \$7.17 million at the 6% rental increase differential, negative \$[1.8] million at a 1% differential and negative \$3.1 million at a common rate of rental increase. (Polkinghorne 1990, p.26)

(There is a typographical error in this paragraph: the figure corresponding to the 1% differential should be \$1.8m, not \$11.8m, to match up with Appendix Table C5.)

These results suggest that the benefit to the government - like the benefit to DARA - of the proposed move is highly sensitive to the metropolitan/country office rental differential. Unfortunately, no empirical data were available confirming the likely magnitude of this differential.

. benefit to regional centre

This was estimated to arise from the annual \$11.2m salary bill for VDARA's Head Office staff, plus a flow-on/regional multiplier effect of \$5.6m p.a., plus the once-off construction cost and local multiplier of \$18m. The corresponding discounted present value over 20 years is \$254m (Polkinghorne 1990, pp.27-28).

The logical corollary of this argument is that the discounted present value of the cost to Melbourne of the Head Office relocation must also be \$254m.

. staffing

The Report noted that:

By far the greatest asset in any service business, in fact virtually the only asset, is people. (Polkinghorne 1990, p. 28)

While country staff reacted "enthusiastically" but with "considerable cynicism" to the relocation proposal, "the announcement of the relocation proposal triggered very negative responses from head office staff" (Polkinghorne 1990, pp.28-29). In response to a survey, 11% of head office staff indicated willingness to relocate, 58% indicated unwillingness, and 32% were undecided.

It was argued that:

The relatively higher percentage of negative responses in the highest educated groups focuses attention on the importance of quickly developing pro-active measures to prevent major loss of very senior and skilled staff. This problem is also

indicated by the 100% no vote in the computer services area. Experience at Orange also indicates that the computer area had one of the highest turnover rates. (Polkinghorne 1990, p.30)

The Report also noted Victorian-specific aspects of the Head Office working environment (Polkinghorne 1990, pp.30-31).

. conclusion

The Report concluded that (Polkinghorne 1990, p.32):

As can be seen from functional, travel, financial and staff analysis, DARA would be unlikely to move to a regional location for direct departmental gains. The region selected for the relocation would receive very tangible benefits.

Any decision to move is thereby going to be made as a consequence of government policy initiatives as announce and recently reinforced by the Premier.

If it was decided to proceed with the relocation, it was noted that considerable difficulties could be experienced in maintaining a close relationship between the Minister and departmental management. Few believed that the Minister would actually spend much time in the country Head Office and that, over time, this office would become a "Clayton's" head office with the real power centre gravitating to a "de facto" head office in Melbourne.

4.3 Comparison with NSW

The key features of the Victorian proposal to relocate VDARA's Head Office to a country location bear an uncanny resemblance to the NSW experience. The principal difference is that the Victorian Government and its agriculture Minister have - at least to date - established an evaluation process which enables, and even encourages, community scrutiny and participation. In both cases, the economic benefits of the proposal to the agriculture department and to the State government are small, probably negative, with a wide margin for error.

The principal argument in favour of the move - overtly stated at the outset in Victoria, eventually painfully extracted in NSW - is distributional, i.e. the shifting resources from the metropolis to a regional city. In this context not surprisingly, the emphasis has been placed in both cases on the gains to the provincial town rather than on the inevitable, and probably equal, losses to the economy of the metropolis. Indeed, unless the national economic multipliers are greater in the provincial town, there will be a net loss to the economy from both relocations.

In both cases, it appears that there will be significant adjustment costs to the organisation from the relocation, principally arising from the loss of experienced staff at all levels of the Head Office structure.

From an economics of regulation perspective, the acrimonious debate in NSW between NSW A&F and State Treasury that accompanied the decision making process appears to have been absent in the Victorian case.

5. Conclusion

Decisions by the NSW and Victorian Governments to relocate the Head Offices of their agriculture departments from the metropolis to a provincial location are exactly the kinds of decisions that are anticipated by an "economic" theory of regulation. In both cases, the only apparent benefit is distributional, and economic efficiency - from the perspective of both the administrative unit, the State Government and the State economy - is likely to be reduced. The principal beneficiaries of the relocations are the regional centres becoming the new Head Office locations, and most country-based officers of the agriculture departments for whom promotion to Head Office will become cheaper. The principal losers from these decisions are those Head Office employees who, for a variety of reasons, were unable to relocate with the Office. Other losers, but on a much smaller scale, are taxpayers (if, as expected, the relocation costs outweigh the benefits) and those clients of Head Office whose costs will rise because of a more remote location of this Office.

The principal difference between the relocation decisions in the two States is that the Victorian Government acknowledged immediately that the decision was taken essentially for distributional reasons. In the NSW case, a public admission of the primacy of the distributional grounds was only wrung from the agriculture Minister as a consequence of public skirmishing between the State Treasury and NSW Agriculture & Fisheries. In this latter case, bureaucratic competition provided the means by which the wider community was informed of the relocation proposal; however, because there were no interest groups who were unaware of the relocation proposal who were seriously affected by the relocation, the wider knowledge of its effects had no impact on the nature of the final decision. All that changed was that the NSW agriculture department and Minister were forced to acknowledge that the principal reason for the relocation was distributional. The NSW agriculture department and its Minister fought valiantly to defend its perception of the economic benefits of the proposal but - if for no other reason than its consistent refusal to make public the details of its initial and final economic analysis - it seems clear that there are no efficiency gains to be made from the relocation.

Footnotes

1. A senior NSW public servant has recently argued that most decisions governments - particularly State governments - make concerning agriculture are irrelevant because their economic implications are minuscule compared to decisions relating to the "big picture".

1a. The inclusion in the Orange relocation of the benefits of relocating other NSW Government departments out of the Sydney CBD is a red herring. Such relocations have been occurring for some time, principally involving movements to suburban centres in Sydney, but also include relocation of the Central Mapping Authority to Bathurst in the late 1970s. Such relocations should be evaluated on their own merits, and not confused with the totally separate proposal of the Orange relocation.

2. Why this proposal should have been linked with London's "Whitehall" is rather obscure, since Whitehall is a street not a building. Or perhaps the proposal was even more grandiose than was ever revealed!

3. According to NSW&F in 1989, decentralisation of the Department apparently began in 1989. Decentralisation of NSW&F actually began in the early 1950s with the appointment of the first Regional Director of Extension (in Wagga Wagga), and was substantially accelerated in 1981 with establishment of an integrated regional structure and appointment of Regional Directors of Agriculture. Interestingly, both of these initiatives occurred under State Labor governments.

4. The Minister's identification of lower on-costs as involving "moving to the local radio station, moving to the local paper" inter alia (Lagan 1989) clearly identifies a rural politician's priorities rather than those of Head Office employees of NSW&F.

5. An additional element of the Minister's rationale was that:

Our people will have the smell of cows and the smell of wheat in their nostrils every day and I think that has got to enhance the relationship with the industry. (Lehmann 1989a).

Some accounts had wool as an important odour (anon. 1989c). Some even more exuberant accounts also reported the Minister as saying that:

We are going to put our officers right out there in a hands-on position, right in the middle of the State where they can actually smell wheat and where they can smell sheep and where they can smell pigs" (Lagan 1989).

Obviously this reporter had not read the Illawarra Mercury of the preceding week, which reported a Staffordshire farmer as including a "violet-smelling yucca base" into his pigs' feed "to clear the air with his neighbours" (anon. 1989b). The Minister's comment provided good opportunities for satire (e.g. Glover 1989). Campbell (1989) vigorously rejected the Minister's rationale:

His statement that departmental officers need to smell sheep and pigs if they are to do their job properly is an insult to thousands of men and women who have worked competently and loyally in the Sydney head office over the past century.

6. In evaluating this survey, which was conducted several months after the relocation was announced, it should be remembered that there was a significant staff turnover very soon after the announcement, and that many of those who had indicated in the union's survey that they would not

relocate had probably left the Department by the time of the subsequent survey.

7. This is unlikely. NSW&F occupied approximately 12,000 m² of office space in Sydney, but the call for expressions of interest for constructing office space in Orange was for 8,500 m² - a reduction of 29% (Australian Financial Review 1989, Armstrong 1990a).

8. Government departments tend to attract bureaucrats in sympathy with the perceived interests of the organisation's clients:

But Mr and Mrs Roth see it as an advantage for the department in the long run, as the move will encourage people who were genuinely interested in Agriculture rather than those who wanted to live in Sydney. (anon. 1990b)

Given the implied dangers to the agricultural sector of widening the city-country divide, it is likely to be to NSW&F's detriment to lose city-oriented staff who provide it with a window on attitudes of crucial importance to the future of agriculture. Urban-oriented concerns with major implications for agriculture - about which NSW&F must maintain an intimate awareness - include contemporary shifts in thinking about industry protection, sustainable development, Landcare, agricultural chemicals and organic food. Unless NSW&F has good information on these trends, it will mis-read possible policy responses affecting agriculture which arise from urban concerns.

9. The current Minister's electorate is Lachlan, slightly south-west of Orange. Since Ministers for Agriculture change from time to time, and since the next Minister may not live in the central-west - and even if he/she does, they may prefer at least the policy and executive sections of their Department's Head Office to be accessible to their parliamentary offices - proximity to the current Minister does not seem to be a satisfactory basis upon which to plan the location of the Department's Head Office.

10. The option of obtaining a new Head Office in Orange via a leaseback arrangement with a private developer, first flagged in the Minister's Press Release announcing the relocation (Armstrong 1989a), was not only consistent with the State Government's announced intention of privatising as much of the State public sector as possible, but was also an inspired political/bureaucratic decision. Because State Treasury was not being called upon to fund capital construction, and decisions over renting office accommodation had been largely devolved to individual departments, the power of State Treasury to oppose the relocation proposal was severely circumscribed.

10a. Ironically, recent reports suggest that the real price of office rental in the Sydney CBD has fallen dramatically in recent months: renters are reported to be currently offering rent-free periods of up to 18 months and/or free office fit-out. The same report, however, indicated that "In the past few years, CBD rents have jumped by about 60 per cent" (Dixon 1991).

11. The apparently-high staff exodus since the Head Office relocation was announced can be contrasted with published Ministerial and Departmental expectations about staff decisions. For example, the Minister was reported as saying:

... he expected the majority of employees would transfer to Orange from Sydney ... (Moore 1989b)

At least 70 per cent of the department's professional staff are expected to agree to move to Orange, and up to 60 per cent of the administrative staff. [Lagan 1989; anon. (1989e)]

This exodus should be adjusted, of course, for the "normal" turnover rate in the Head Office unit, variously reported as 12% p.a. (Armstrong 1990b) and 15% p.a. (Quiddington 1989). It is unclear whether these turnover figures represent the proportion of Head Office positions filled in any year (which may include within-Head Office transfers) or represent just recruitment from outside Head Office. Regardless of the fine detail, a net exodus from Head Office of more than 60% of the staff in less than 18 months indicates a turnover rate at least four times the normal attrition.

12. Interestingly, the Victorian Minister for Agriculture - a city-based politician - is reported as saying that he is looking forward to basing his Ministerial office in country Victoria. This contrasts with the NSW case where the Minister's own office is to stay in Sydney.

13. The Department is reported to have partially recognised the increased communications costs that will be imposed on its Head Office activities by a move to Orange by investigating the purchase of its own aircraft. Such a purchase would ease communications difficulties for senior echelons of Head Office staff, but will do little to ameliorate poorer communications with the clients of the bulk of Head Office staff.

14. This comment bears an uncanny resemblance to the proposition that "a rose is a rose is a rose", attributed to Gertrude Stein - poet, right-wing feminist, and admirer of Adolf Hitler.

15. Gill (1991) reported that, in a possibly-imminent reshuffle of the Victorian Cabinet, Mr Rowe would lose his job as agriculture minister. Even if Mr Rowe retained the agriculture portfolio, the current Victorian Government's hold on power is so tenuous that Mr Rowe is unlikely to be required to move his office to the bush. This raises the interesting issue as to whether a likely successor from the Liberal Party (or, perhaps, even the National Party) would relocate their office to the provinces. In turn, this raises the Machiavellian prospect that a Victorian Labor Government might relocate VDARA's Head Office outside Melbourne to reduce the policy impact of the rural sector. Polkinghorne (1990, p.30) had reported that:

Very real concerns were expressed among managers concerning the detrimental effect of becoming remote from the "machinery of government" with a consequent loss to DARA's position and funding, and the difficulty of contact with Melbourne clients, industry and professional groups.

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Table 1: Estimated Rental Savings from Relocating NSW&F Head Office to Orange, Net Present Value over 10 years (1989 dollars million)^a

	Discount Rate (%)									
	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09	0.1
Savings ^b										
1	33.15	31.44	29.86	28.39	27.03	25.76	24.58	23.49	22.46	21.51
0.9	29.83	28.30	26.87	25.55	24.32	23.18	22.12	21.14	20.22	19.36
0.8	26.52	25.15	23.88	22.71	21.62	20.61	19.67	18.79	17.97	17.20
0.7	23.20	22.01	20.90	19.87	18.92	18.03	17.21	16.44	15.72	15.05
0.6	19.89	18.86	17.91	17.03	16.22	15.46	14.75	14.09	13.48	12.90
0.5	16.57	15.72	14.93	14.19	13.51	12.88	12.29	11.74	11.23	10.75
0.4	13.26	12.58	11.94	11.36	10.81	10.30	9.83	9.39	8.98	8.60
0.3	9.94	9.43	8.96	8.52	8.11	7.73	7.37	7.05	6.74	6.45
0.2	6.63	6.29	5.97	5.68	5.41	5.15	4.92	4.70	4.49	4.30
0.1	3.31	3.14	2.99	2.84	2.70	2.58	2.46	2.35	2.25	2.15

Notes: a. Based on a reported rental for the Sydney Head Office of NSW&F of \$3.5m p.a. (Moore 1989b)

b. Expressed as a proportion of the rent NSW&F paid on its Sydney office; e.g. "0.5" means that office rent at Orange was half the Sydney rent.

Table 2: Estimated Rental Rate Corresponding to Project Developer's Desired Real Profit Rate for \$21.437m Building

Real Profit Rate (riskless + margin)	Required Rental Rate (per square metre)
0.01	25.22
0.02	50.44
0.03	75.66
0.04	100.88
0.05	126.10
0.06	151.32
0.07	176.54
0.08	201.76
0.09	226.98
0.1	252.20
0.11	277.42
0.12	302.64
0.13	327.86
0.14	353.08
0.15	378.30
0.16	403.52
0.17	428.74
0.18	453.96
0.19	479.18
0.2	504.40

Table 3: Reconstructed Cost Benefit Analysis for Relocation of NSW&F's Head Office to Orange (discounted \$m over 10 years)^a

	Departmental Rent Estimates ^b	Reconstructed Rent Estimates
Office Rental <u>Savings</u>	7.0	0.00
Site Rent	(?)	-0.75
Development Management	-1.0	-1.00
Better Promotion Country Officers	(?)	(?)
Access to Industry	negative	negative
Reduction in Head Office Staff (10%)	8.43	8.43
Relocation Costs		
- Officer Transfer	-4.0 plus	-4.0 plus
- Physical Relocation	negative	negative
Indirect costs	negative	negative
Adjustment costs		
- Reduction in productivity	negative	negative
- Recruitment costs	-2.97	-2.97

Notes: a. benefits or net benefits are positive; costs are negative
 b. adjusted so that the size of Sydney and Orange offices are equivalent

Appendix 1

In surveying the development of government in Europe in the second half of the sixteenth century, Elliott (1969, §§3.1-3.2) observed the workings of a political system almost perfectly congruent with an "economic" theory of regulation:

In place of the old feudal structure, based on homage and the fief, there now existed throughout Western Europe a complicated system of clientage, held together by the more subtle ties of loyalty and interest. (p.75)

The successful sixteenth-century ruler was the one who deployed his reserves of patronage and power to moderate the perennial rivalry of opposing factions, while exploiting their systems of clientage to further the interests of the Crown. For aristocrat clientèles were a permanent fact of life, and without their cooperation there was little hope of royal commands being obeyed in the provinces. There was, therefore, no question of ruling above faction. The art of government lay in ruling through it, as Elizabeth demonstrated in England. "The principal note of her reign", remarked a contemporary, "will be that she ruled much by faction and parties, which she herself both made, upheld, and weakened as her own great judgment advised." Philip II [of Spain] ... used the same technique. So also, with less success, did Catherine de Medici [regent of France]... (p.76, emphasis in original)

The sixteenth century was the first great age of government by paper. Everywhere the stacks of documents piled up, as more and more government business was consigned to carefully-written records kept by a growing army of clerks. Government by paper was the preserve of the professionals - the clerk, the secretary, the trained civil servant ... (p.77)

... for Philip [II of Spain] himself, preferring to be his own secretary and minister, closely supervised [the work of the heads of his two departments] ... But inevitably they wielded great power behind the scenes, insinuating, suggesting, and actively advising a king who, however conscientious, was at times nearly overwhelmed by the stacks of papers piled high on his desk. (p.79)

The rise of the office of secretary of State, in particular, was a characteristic sixteenth-century solution to a universal problem. Kings needed discreet and reliable officials, whose loyalties were to the Crown rather than to any social group or faction in the State. (p.79)

[Monarchs] were hampered, too, by the divided loyalties of the men they chose as their servants. In a society where the individual took second place to the family, and where title and rank were regarded as the prime criteria of success, the royal official naturally thought of his office as a means of social advancement, which might eventually place his family among the great houses of the land. If he looked to his sovereign's interests, he must also look to his own, and this led him into an equivocal relationship with the great nobles who surrounded him at court. On the one hand he must protect the Crown's interests against those of private individuals; on the other, he would wish to avoid displeasing the nobility whose ranks he hoped to join. (p.82)

Some degree of corruption was unavoidable so long as an office was regarded as a piece of property, rather than being associated with the idea of public service. But corruption was exacerbated by the inability of sixteenth-century monarchs to pay their officials either

regularly or well. ... officials would naturally look to gifts and perquisites to supplement their meagre incomes. In a sense these perquisites were no more than fees, and tended to be regarded as such by both donor and recipient, but their acceptance meant that the official's dependence on the Crown was less than complete, and the fabric of royal government was correspondingly weakened. (p.82)

[favours and hereditary office holding were an alternative to regular salary]. But this also to some extent weakened royal control over the machinery of government, by turning offices into family patrimonies. ... Increasingly it became the practice to create and sell new offices as a means of enlarging the royal revenue. ... By the later years of the century French administration had virtually slipped from the hands of the Crown into those of a large caste of office-holders, who regarded themselves as a privileged corporation in the body politic, and their offices as valuable pieces of family real estate. (pp.82-83)

All over Europe, princes found themselves face to face with parliaments whose powers may have varied considerably from one State to the next, but all of which were likely to impinge at some stage on the political calculations of the Crown. (pp.87-88)

There were practical benefits, too, [in utilising parliaments] which could not be ignored. The calling of a representative assembly was, after all, a very convenient means of associating the mass of the nation [sic] with fiscal or religious policies which might well prove unpopular. [Parliaments] could be used as a means of levying new taxes, of bringing pressure to bear on the clergy or other sectional interests, and of rallying the nation behind the Crown for the purposes of domestic or foreign policy.

...

Estates, on the whole were desirable - but they should be submissive Estates ... Unfortunately [for the monarch] this was easier to hope for than to achieve. (pp.89-90)

A noble chamber in the Estates was an ideal forum for the expression of deeply felt resentments against the rule of secretaries and the encroachment of royal prerogative on aristocrat rights. The Estates provided, too, a safer and more sophisticated means of opposition to royal policy than baronial revolt.