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THE NATIONAL INTEREST, WESTMINSTER, AND PUBLIC CHOICE*

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There has been increasing scrutiny of government policy decisions and advice in recent years. The supremacy of the national interest has been questioned and self interest theories explored. Administrative systems have been reformed, and the role of the Westminster model of government decision-making endlessly reviewed. Increased interest by economists in the policy process has created a new subject area in economics, namely, public choice theory. It places greater emphasis on individual choice and hence on the way political institutions meet society's needs. It provides a suitable framework for explaining political decision making and administrative processes. In this Address, New Zealand agricultural policies and processes in the last two decades are explored from this viewpoint and the applicability of the theory assessed.

Introduction

As a retiring government servant, I have chosen a policy topic for the presidential address to the Society. I have been associated with government administration of agricultural policy in New Zealand for the last 22 years and before that spent 6 years as a University-based policy research analyst. Whilst it is difficult to recall all of the first impressions of entering the administrative system from the outside at mid-career, elements of these impressions and later observations will form the basis of this paper. Clearly remembered is the frenzy of getting papers ready for Ministers and Cabinet, the work of coordinating committees, the division of colleagues into 'independent advisers' and 'obedient administrators', and the compromises between advice and final decision-making. There was a lot of slack time and also many low priority tasks associated with ministerial servicing that had to be carried out. Training was minimal and recruiting was at the first degree level. In making policy recommendations, the government and administrative system was taken as fixed by convention and recommendations kept within its confines to serve the perceived national interest.

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Policy discussion is the bread and butter of the Society. Among recent Presidential addresses, Roger Mauldon discussed some of the public information issues surrounding the formation of the IAC at La Trobe in 1975, Warren Musgrave discussed aspects of policy formation at New England in 1976, and Bruce Standen talked about the functions of policy advisers at Brisbane in 1983 (Mauldon 1975, Musgrave 1976, Standen 1983).

In recent conference papers, Keith Campbell presented a view on changing institutions and processes at Melbourne (Campbell 1982). At Christchurch, Will Martin analysed recent Australian agricultural policy decisions from a public choice point of view (Martin 1989, 1990), and Gordon Rausser discussed productive and predatory policies which emphasise the redistributive aspects of government policies (see Rausser 1982, 1989).

The aim in this address is to analyse changes in New Zealand agricultural policy over the last twenty years from the standpoint of public choice and administrative theory and draw general conclusions. Particular attention will be paid to the role of agricultural economists in government and the role of information in the political and administrative process. First, the main agricultural policy directions are described as a background to the changes which have taken place. Second, the political and economic framework in which these policies were formulated and how this has changed over the period are discussed. Reference is made to the main theoretical explanations of these changes so as to offer some testable hypotheses for later discussion. Finally, the implications of the analysis for future policy making and the role of economists within such a process is discussed.

The Policy Background

The last ten years has been a period of rapid change in policies and government institutions in New Zealand. They have affected agricultural policy and the way it is administered. The major policy and institutional changes affecting the agricultural sector can be encapsulated in six broad areas:

- (i) The change from a National government to a Labour government in 1984 brought in a period of fiscal stringency which saw an overhaul, and removal, of all the assistance programs for the agricultural sector. Most significantly, the new government freed the exchange rate mechanism in March 1985 which removed any remaining insulationist mechanisms protecting agriculture from international economic forces. Stabilisation mechanisms managed by the marketing boards also lost their effectiveness when government removed board access to subsidised Reserve Bank credit. Monetary policy was aimed at reducing inflation and, while interest rates and inflation at first increased markedly, subsequent success of the policy brought about marked reductions in both rates. The impact on the agricultural sector of these reforms has been to gradually

align domestic costs with international prices, with positive results with regard to the sector's contribution to GDP in real terms (Johnson 1993).

- (ii) Through 1985 and 1986, the government initiated a major reorganisation of the agencies concerned with land, water and forestry administration. This was in response to election promises made to the environmental lobby to separate policy and delivery functions in this emerging and sensitive area. The former Departments of Lands, Forestry and the Environment Commission were re-organised into a Department of Conservation, a Ministry for the Environment, a Ministry of Forestry, and a residual Department of Lands to cover survey and mapping functions. Commercial activities in forestry and lands were transferred into state owned enterprises (SOEs) called ForestCorp and LandCorp.
- (iii) In 1988, the Ministry of Agriculture and Fisheries re-organised its nine technical divisions into four businesses and established separate financial control systems for each with inter-divisional charging. In 1991, a further re-organisation separated the policy functions of the Ministry from its delivery functions; the new policy division to be known as MAFPolicy. Charging for services like meat inspection and extension had been introduced in the 1985 reforms. The further separation of these latter commercial activities into SOEs has been seriously debated, but has not proceeded to date. At present, Agriculture New Zealand (the extension business) and MAFQual Management (the inspection business) are regarded as delivery businesses of the Ministry, following the collapse of proposals to make these two entities SOEs in June 1992, but a commitment remains to sell the extension business to the staff by 31 August 1994. At the same time, advisory boards were established to oversee the operations of the two businesses.
- (iv) Through 1987 and 1988 a cabinet committee of the Labour administration reviewed the responsibilities of chief executives and other systems of accountability within the bureaucracy. The result of this work was the emergence of the State Sector Act in 1988 and the Public Finance Act 1989. The former Act provided for a system of contracting between Ministers and Chief Executives, while in the latter Act provision was made for the introduction of full accrual accounting systems throughout the public service, and for appropriate costing (including capital charges) for services provided.
- (v) In 1991 the incoming conservative government introduced and passed the Resource Management Act to provide a new system of environmental management for land, water and coastal resources. While this legislation had been prepared under the previous administration, the general thrust towards 'bottom-line' ecological principles and enhanced property rights was preserved. Among other matters, this legislation has the potential to affect most resource

decisions carried out by farmers and will be implemented by regional government bodies.

- (vi) Also in 1991 the incoming government introduced a re-organisation of the science agencies particularly concentrating on the state funded agricultural science activities of the Ministry of Agriculture and Fisheries and the Department of Science and Industrial Research. In June 1992, nine crown-funded stand-alone research institutes were established which are independent of the old departments and are responsible to a new Ministry of Science and Technology, with funding regulated through a Foundation for Science and Technology.

Further discussion of these changes (except for point (iv)) can be found in Johnson (1993). The impact of the changes introduced by the State Sector Act 1988 and the Public Finance Act 1989 are discussed below.

Theories and Frameworks

These changes represent a major re-organisation in both policy attitudes and policy delivery systems in New Zealand. Both are part of the political organisation of the country. A theory of government is needed that allows discussion of these wider issues and offers insights into the reasons for them and the results that might emerge. Public choice theory provides such a framework, where the roles of the politicians, the bureaucracy and the interest groups can be analysed. Public choice theory encapsulates the ideas that political decision-making has regard to the interest groups in society who request favours of one sort or another, that public bureaucracy can have its own plans and goals, that interest groups can capture the bureaucracy in some circumstances, and that the bureaucracy can be too big and unwieldy. It also distinguishes between the determinants of policy that arise from private interests and those of the public or national interest. Finally, it provides a framework for understanding the limits of political choices through discussion of the conventions and rules of constitutions.

To explore these theories, the approach taken is to first identify what is meant by the 'national interest'; then to clarify what is meant by the Westminster system; and then to review the theories that suggest alternative hypotheses of policy formation and decision making.¹ Martin's (1989) approach of analysing private interest models is followed. This approach focuses particularly on the role of interest groups and the resolution of their collective needs. Particular attention is paid to the definition of an 'efficient' political market and its consequences for policy makers, and different variations of the public choice model. The discussion then turns to the re-organisation of New Zealand policy processes

¹ The focus is on the party system within the Westminster model as appropriate to Australia and New Zealand. Quiggin (1987, p.12) points out that political parties play a relatively small part in public choice theory.

and delivery systems in recent years to seek greater understanding of agricultural sector decision-making in the process.

The National Interest

Many economists in government have the simple view of policy in the national interest as being any policy which contributes to national income and growth. It is probably derived from a Benthamite view that government should seek the happiness of the greatest number. In defining the objectives of a cost-benefit analysis, for example, analysts would be careful to define the objective function in national income terms, and look for a positive return above the government's borrowing rate. Stabilisation schemes would be presented in terms of an excess of benefits over costs following intervention. Investment subsidies would be justified in terms of greater export income (and hence by implication greater national income). Distributional matters would largely be absent in such deliberations (as noted by Musgrave 1976).

Economists would also accept political science constructs that emphasise the democratic process. Here the national interest is achieved by parliament agreeing to legislation evolved from compromise and bargaining among the elected representatives. Civil servants provide advice to the legislators and implement the policies that result from political decision making. A career civil service based upon expertise and non-political appointments provides objectivity and freedom from partisanship (Jacoby 1974, p. 58). The role of the Westminster system is discussed in the next section of this paper.

The economic role of government in this framework is to introduce policies that increase social welfare. The welfare maximisation perspective sees government as an omniscient and benevolent dictator (Swinnen and van de Zee 1993). Governments intervene in the private economy where it fails to function properly in allocating and distributing resources ('market failure'). The state can produce goods, internalise social costs and benefits, regulate decreasing cost industries, and redistribute income. In theory these actions can redistribute resources to maximise welfare.

Randall (1987) calls this the 'public-interest, market failure' model of government. He notes the philosophical lineage from Rousseau, Marshall and Pigou. Its basic premises are that the true public interest will be revealed in the political process; that programs to promote economic activity, to rectify market failure (to internalise externalities and to provide public goods and merit goods), and to promote equality of economic opportunity all may be seen as enhancing the general welfare; and that continued vigilance and effort is necessary to ensure that government remains responsive to the public interest. In what follows, the term 'national interest' reflects the broader aspects of government policy aims, and 'public interest' refers to particular theories of government.

The role of the administrative sector is characterised as follows (Randall 1987, pp. 39-40):

Given that the political sector will reveal the public interest, the administrative sector must adhere to an ethos that emphasises the total submergence of the manager's personal objectives in favour of the politically revealed public interest and the objective, scientific facts of the situation. The managers are true professionals, neither self-interested nor politicised. They seek objective facts from researchers, and educators, who are obliged to tell them all the facts and nothing but the facts.. Thus armed, managers allocate, invest, and regulate in the public interest.

Economics is quite clear how the best possible outcome can be defined. Pareto-optimality is achieved in a situation where a reallocation of resources would make at least one person better off without making anyone else worse off. In terms of any mechanism, system or outcome, Pareto optimality indicates that no further reorganisation will make the allocation of resources more efficient. Modifications of the criterion have been made, such as accepting or approving a policy in which one or more individuals are harmed if these individuals are actually or potentially compensatable for such harm. Overall, Pareto optimality defines the national interest in a precise and acceptable way and also provides a theoretical test for policy comparisons. It is essentially normative.

These paragraphs postulate a simple world where politicians make decisions in the 'national interest' and civil servants (including economists) present alternative solutions to perceived problems to the politicians, also guided by concepts of the national interest. The political process is seen as something pure and omniscient and the providers of policy advice as objective, independent and non-political.

The Westminster System

The British system of government, with local variations, is found in Canada, South Africa, Australia, New Zealand and various commonwealth countries formerly colonised by Britain. It is characterised by elected parliaments, majority party rule, regular elections, administration by a ministerial executive, and ministerial control of the departments of state. While the broad pattern is similar, individual countries have different variations of the model especially with regard to weighting of votes (proportional representation) and the preservation of an upper house. Up until recently, the New Zealand model has had simple majorities for elected members and only one house of representatives. New Zealand does not have a federal system of state governments, though many functions, especially in the resource area, are the responsibility of regional councils.

The system has a set of rules and conventions concerning the relationship between parliament, the elected majority party and the bureaucracy. These also may vary from country to country. Ministers are responsible for their departments who carry out plans and policies sanctioned by cabinet agreement. Departments provide advice and servicing functions back to Ministers. A key feature of the advice convention is that it should be able to be tendered in a free and frank manner. This is backed by other conventions concerning the independence of promotion and tenure of

public servants from the political process; the anonymity of public servants in terms of responsibility for actions taken, and the guarantee of political impartiality in the advice given (Hensley 1993). As a result, political appointments in the bureaucracy itself are relatively rare (as compared, for instance, with the approach adopted in the United States), though they are common in para-statal organisations set up under statute where government members can be appointed.

Decision-making in the Westminster system is the role of elected politicians. They are elected to represent areas in the first instance, though party allegiance tends to dominate their views once in government. Party programs or manifestos suggest policies which are placed before the electorate and which may be followed up in greater or lesser detail after success at the polls. The writing of such manifestos is based on past experience and on the views of lobbyists who offer electoral support. Proposals for policies and legislation are judged in terms of such past commitments, promises and perceptions, tempered by the independent advice likely to be offered by the bureaucracy once elected.

It would be tempting to state that political decision-making is solely motivated by some view of the national interest in the Westminster system; but any attempt to describe the process sooner or later indicates just how broad and diverse the process can be. This is where public choice theories become relevant and discussion should now turn.

Public Choice

Public choice can be defined as the economic study of non-market decision making in the government realm, or more simply as the application of economics to political science (Mueller 1989). The theory has many ramifications extending over voting behaviour, theories of representation, constitutions, size of government, role of interest groups, consumer preferences, and allocative efficiency. For present purposes, the focus will be on the role of interest groups and the theory of constitutions as it affects the rules and conventions both within and outside the political process.

The argument is that the state is not an organic body apart from the collection of individuals comprising it and that the central role of the economist is to analyse how efficiently government institutions enable individuals to express and realise their preferences about public goods, services and policies (Johnson D. B. 1991, p. 11). In this view, bureaucrats have their own preferences and goals which they can achieve by enlarging the size and budgets of their agencies. Politicians can achieve their goals by being elected to office and bestowing favours. Interest groups act on behalf of individuals in getting favourable policies passed in the legislature.

Using the tools of economics, the meeting place where these influences are resolved could be called the 'political market' (Johnson D. B. 1991, p. 11). According to public choice theory, Government decision-making is subject to pressures from interest groups, lobbying, and voting behaviour, as well as from self-interest. The political market can be seen as the collective expression of individual and group preferences through an

aggregate decision-making process, the government polity. Votes determine the provision and allocation of resources through the political process. The political market is where policies are sorted out. Potentially, it involves all the groups in society and the collective decisions that are ultimately reached reflect the respective power bases of the participants. The theory provides a different definition of the national interest from the omniscient one.

Randall (1987) calls this method of policy making the individualistic model of government. Its antecedents are the writings of Locke and Wicksell. It employs a restricted version of the Pareto principle where any change that harms any individual is not an improvement. All rights initially are assumed to reside with the individual and to avoid anarchy, individuals rationally delegate some rights to a central authority. It emphasises voluntary exchange in the market and unanimity in the political sphere. The emphasis is on individual liberty. The cornerstone of liberty is a set of complete, carefully specified, secure, enforceable, and transferable rights backed by the state.

Rent Seeking

Interest group behaviour in the political market is a form of rent seeking. Economic rent is defined as any higher return, income, or receipt that cannot be reduced or eliminated by the normal competitive factors in the economy (Johnson D. B. 1991, pp. 328-30). It applies particularly to cases where there are barriers to entry to an industry, especially where these are created by government. In public choice economics the term is used for those individuals who use government legislation and regulations to transfer wealth (rent) to themselves. It applies to all cases where government restricts competition, erects entry barriers, or grants special privileges to certain segments of society and not to others. Rent seeking is inefficient in this view because it diverts resources from the activity which could have been producing real goods and services.

In the political market, special interest groups concentrate on obtaining preferential legislation at the expense of the public at large (Pasour 1993, p. 8). Large amounts of time and money can be spent in lobbying, campaign contributions, community gifts etc by occupational groups as well as industrial groups. Such legislation restricts competition and raises prices and incomes through political power. Rent seeking biases the perspective of elected government representatives as they cater to groups seeking policies that benefit the few at the expense of the many.

A more positive view is that interest groups can also contribute to the pool of information that is available, thus improving both the quality of decision making and the equality between the parties to the decision. As suggested below, majority decisions may follow from the pressures created initially by the individual interest groups.

Political Efficiency

If economists can define the conditions to be met in order to have an efficient private market it follows that they should be able to define an efficient political market. If the respective groups represented in the political market can negotiate and then agree on a preferred position or policy then it is considered that they will have used least-cost ways of reaching that decision and each group has given away the least it can afford. The groups would need equal access to information. Therefore, in the sense that no one can be made any better off, the decision is the most efficient one that can be reached.

Under the private interest view it can be argued that the most efficient methods will be used for any given redistributive objective as well (Posner 1974, Martin 1989). Less efficient policy approaches for achieving a given end impose higher costs, create stronger opposition and hence will not be chosen by rational policy makers.

Chicago political economy can be viewed as a positivist approach using price theory to analyse government activity (Pasour 1993, p. 9). Pasour calls this the Chicago version of public choice theory. In this view, the state is a mechanism used by rational economic agents, including individuals and their associations, to redistribute wealth. The decisions reached are considered to be relatively efficient in the sense that they are better than available alternatives.

The consequences of a strong belief in the veracity of this model leads to the conclusion that there is no point in legislators and analysts positing public interest policies, as the private interest process is actually more efficient in reaching the appropriate goals. Pasour observes that there appears to be little or no scope for economic reform, or for public policy research, even in this relatively weak form of efficiency in the political system. If there is no superior available alternative to a current government program, how can public policy be improved? Proponents of this view frequently argue that economists have little role in suggesting improved methods in the public sector and should devote their energies to the positive analysis of the laws of operation of the policy process (Quiggin 1987, p. 12; Martin 1989, p. 3).

This view of the political process involves the assumption that the various decision makers have equal access to all the necessary information to make informed agreements. It also implicitly has the assumption that an exchange of information takes place and there is a capacity to analyse information in an unbiased way at the moment of decision (R. Jeffery, pers comm). As Stigler (1982) put it, 'if we look at any important economic policy of the state, we shall find that it takes account of whatever established knowledge economists possess'. It then follows that if economists' views were available when the decision was taken and the private interest view prevailed, then policy economists have made little contribution to the public policy, except making the necessary information and analysis available. A possible role of the public sector economist

may be 'to balance' the information available for government decision-making (R. Jeffery, pers comm.).

Pasour points out that the conclusion that public policies cannot be improved assumes extraordinary knowledge and foresight on the part of voters and government officials, elected and appointed. He concludes that one must assume imperfections in the political process, as in private markets, and that rent seeking and other forms of government failure are the more likely outcome (Pasour 1993, p. 10). This then rescues all the economists in the world from the apparent limbo Stigler delivered them into. Martin (1989) also questions the extreme view that public policies cannot be improved. He believes that even political processes such as simple majority voting are not all that efficient in aggregating preferences across individuals and that the effects on social welfare of some kinds of assistance are so complex (for example, the effects of protecting domestic manufacturing industries on exporting primary industries) that the huge economic losses generated by these policies could scarcely be optimum in any sense (Martin 1989, p. 3). Clearly, more work needs to be done on defining the nature of such optima.

Political efficiency is an attractive side-issue to the main debate. It is a descriptive but not an analytical construct. It is a viewpoint analysts need to understand better, and rationalises the gap between policy advice and actual decisions. It does not seem to be an area in which policy advisers should be involved and, indeed, the Westminster system clearly makes a distinction between the two roles. No doubt, party apparatchiks operate in this area and it should be left to them to explain the decisions they advise and take.

Public policy advice is a separate function. It is an information collecting, information exchange and analysis role. In practice, in most Westminster systems, economists and other professionals dominate the process. Thus they have a say in policy proposals and also in writing the rules (see below). Final decision-making is withheld from them but those with control of the information and the advisory functions are bound to have a major say in framing policy, given the detail that is ultimately required in preparation. The role of information is discussed further below.

Public Policy Decisions

There is considerable discussion in the literature as to whether politicians or bureaucrats dominate the decision process. The work of political scientist, T. J. Lowi, is instructive in this respect (Lowi 1972). Quiggin (1987, p. 16) identifies Olson's (1965) work as originating serious study of concentration and interest groups. Lowi emphasises that the nature of a proposed policy determines which group is dominant. Some policies benefit a few and the costs are shared by the many. Others may impose costs on a small group for the general benefit of many. Another case is where the costs fall on a small group at the expense of another small group. As the groups involved get smaller, up to a point, the scope for conflict increases; as the scope for conflict increases, the more likely

decisions are made at a political level and the less at the bureaucratic level. Lowi thus emphasises the distributive aspects of policies where those with widely spread costs arouse little conflict but those with a narrow base are the opposite.

In New Zealand, Kellow (1989) has examined four public policies from this point of view. A power station project (Marsden B) promised local benefits and would be paid for by all electricity consumers. Bureaucrats dominated the policy process. The objective of clean air legislation (1972) would impose costs on industry to benefit the public generally. Industry groups negotiated with bureaucrats in this case. The aim of water and soil legislation (1967) was to benefit the public generally, but involved choices among property owners especially with regard to water rights. Here political resolution was important. Finally, a proposal to build a PVC plant (at Marsden Point) started as an industry benefit with dispersed costs, then became a 'public' issue when concern arose over cancer risk, then reverted to a 'private' issue as the monopoly powers of the industry were examined, and ended up as a 'public' issue when the trade aspects were examined within the political decision process. In this example, resolution could only be achieved at the political level.

Important factors are the amount of conflict likely to be aroused and the number of players involved (Kellow 1989, p. 150):

'A regulatory policy . . . might see the clients and interests of different departments involved, and the politicians are more likely to be involved in clearing the resulting jam. Redistributive policies are more likely to have their origins in party manifestos and are much more likely to closely interest Ministers; it is to such issues that Ministers are likely to devote one of their scarcest resources — time'.

Private interest versus public interest decision-making

From the above discussion it is possible to identify six criteria for judging whether a particular policy decision supports the private-interest argument. The emphasis is *ex post*, that is, past decisions are judged by whether a wealth transfer did take place, and not whether it might have taken place.

- (i) Private interest applies in cases where economic power is transferred to an interest group by a regulation or policy decision and/or creates new interest groups in the process. For example, the broad sweep of protecting domestic markets through use of import controls fits in here.
- (ii) Evidence of transfers of wealth in response to a policy decision consistent with rent-seeking behaviour of a broadly defined interest group. This criteria is similar to Rausser's (1982) political economic seeking transfers (pests). Input and output subsidies are of this type. At the more micro level, averaging or pooling arrangements in marketing boards usually favour smaller groups within an industry.

- (iii) Involvement of interest groups in policy formation process. This derives from Lowi's proposition that the degree of consultation is proportional to the anticipated amount of conflict expected. Kel-low's (1989) PVC case is one of these.
- (iv) Transfers to groups for hardship, inequalities and so on, especially where moral hazard is involved. This is typical of drought and disaster relief.
- (v) Transfers of wealth arising from public provision of goods and services where private markets co-exist. This is a subset of Rausser's political economic resource transactions (perts) where public goods and market failure are potentially present. This category applies to many goods and services provided by departments of agriculture.
- (vi) Transfers of wealth arising from imbalances in information control and supply. Statutory bodies and private firms use information as a defensive argument in their dealings with government.

A preliminary examination of 18 New Zealand agricultural policies of recent years (Table 1) identified only 5 policies which were categorically private interest, viz, input subsidies, irrigation subsidies, government minimum price schemes, drought subsidies and fisheries quotas. In these, transfers of wealth from the many to the few were all self-evident. The other policies examined were more a mixture of private and public interest aspects, some with conflicts between the many and the few and others with a high level of political input. The majority of the set examined were more oriented to public interest than to the private interest.

Constitutions and Institutional Rules

An alternative approach to achieving better policy outcomes lies in the realm of constitutional economics (CE), a branch of public choice theory. Constitutional Economics is the application of economic analysis to the selection of efficient rules and decision making institutions (Johnson D. B. 1991, p. 341). Constitutional analysis recognises a difference between operational and constitutional levels of decision making. The operational level consists of decisions made within a given set of already existing rules. These include voting procedures and most government financial allocations. The constitutional level is where the rules of the game are established including the allocation of property rights.² These rules are established in an atmosphere of conceptual impartiality because the future effects on individuals cannot be foreseen. Once established, individuals can make their operational choices.

² The power of constitutional change should not be over-looked. In the last few years New Zealand has had two referendums on proportional representation and in 1993 voted in the Mixed Member Proportional (MMP) system of voting to be introduced in 1996. The re-allocation of seats and changes in the balance of parties will have profound affects on the present system of party politics and decision-making.

TABLE 1
Private-interest Analysis of New Zealand Agricultural Policies

Policy	Transfer of Power to Group	Transfer of Rent to Group	Players Involved Beneficiaries/Payers	Consultation Process Utilised	Theory
1 Input subsidies	no	yes	group/many	yes	Private interest
2 Output subsidies	no	yes	group/many	no	Public interest
3 Single seller marketing	yes	no	many/many	yes	Private interest
4 Price support (a) self funded	no	no	group/group	yes	Public interest
(b) govt funded	no	yes	group/many	no	Private interest
5 Income equalisation	no	no	group/group	yes	Public interest
6 Producer control	yes	yes	group/many	yes	Contractarian
7 Drought relief	no	yes	group/many	no	Private interest
8 Soil erosion incentives	yes	yes	group/many	yes	Public interest
9 Nationalisation of water rights	yes	no	group/many	yes	Public interest
10 Land use controls	yes	no	group/many	yes	Public interest
11 Irrigation	no	yes	group/many	yes	Private interest
12 Welfare grants	no	no	many/many	no	Public interest
13 Research services	no	no	many/many	no	Public/private interest
14 Veterinary services	no	no	many/many	no	Public/contract/arian
15 Information services	no	no	many/many	no	Public/private
16 Extension services	no	yes	group/many	no	Public/private
17 Financial services	no	no	bureaucratic	no	Public interest
18 Fish quotas (a) ITGs	yes	yes	group/group	yes	Private interest
(b) Rational use	yes	no	many/many	yes	Public interest

Rules are a time saving and more efficient way of individuals interacting with each other compared with their absence (Johnson D. B. 1991, p. 345). Constitutional rules set the conduct of operational rules and do not need to be changed in the short term. In modern societies, characterised by multiple interdependencies and externalities, improvements in the standard of living become increasingly dependent upon establishing an institutional environment that provides the correct signals, information, and incentives to other members of society. These institutions or operating rules provide a ready reference point for everyday conduct.

The growth of trade and commerce is dependent on such rules (North 1987, p. 421). Modern societies have devised formal contracts, bonding of participants, guarantees, brand names, elaborate monitoring systems and effective enforcement systems to protect the individual but also to create confidence. North (1987) calls this a well-enforced and well-specified system of property rights. He points out that the resources devoted to transacting are large (although small per transaction) but the productivity gains from trade are even greater. Government has a co-ordinating and facilitating role in providing the environment where transaction costs are minimised and rights better defined. International negotiations on sanitary and phytosanitary measures can be viewed in this light (Petrey and Johnson 1993).

Unless the decision rules used for making policy choices are selected appropriately, non-cooperative behaviour is likely to result in distinctly sub-optimal choices being made (Martin 1989, p. 4). However if the rules are unanimously agreed, *ex ante*, then any resulting outcome has a strong claim to being optimal. Thus, in this view, policy analysis should focus on the rules of conduct for policy determination rather than on evaluation of policy outcomes. This creates the right environment for incentives to work and allows production and investment decisions to proceed.

Rules can be written and unwritten, as with the assignment of property rights (Johnson 1992). As Martin (1989, p. 4) points out, it is a generally accepted rule that the Australian Government can require issues on industry assistance to be referred to the Industry Commission. However, for a long time in Australia there seemed to be an implicit rule that domestic-oriented agricultural industries in each State 'owned their own demand curve' and could charge differentially on the home market (Sieper 1982, p. 9). The important point is that the conduct and performance of public policy depends entirely on the extent to which a Government can design, adapt or modify the written or unwritten rules in its environment.

Rules are therefore more important than is generally realised. They help reduce transaction costs. They make policy formation easier and more productive for politicians and bureaucrats. They reduce reliance on negotiating skills on a case-by-case basis. They provide opportunities for increased efficiency and hence general welfare (Martin 1989, p. 5). They also indicate that the work of economists in government could be enhanced by greater attention to institutional rules and possibly less attention paid to evaluating policy outcomes.

The Information Market

It was pointed out earlier that information is part of the political market (just as it is in the commercial market). Equal access to information is a necessary condition of optimality. A greater supply of relevant information to the actors in the policy decision process improves the quality of that decision from the public interest point of view. According to conventional welfare analysis, governments should intervene where they can alleviate market failure. This can be extended to the policy process including lobby groups. Information has significant merit good characteristics so that some degree of government intervention in its provision could constitute a welfare improvement where under-provision exists. If transaction costs vary for different groups then access is likely to be unequal.

While individual organisations would not like information on the adverse effects of measures from which they individually benefit to be disseminated, it may still be possible to obtain agreement to a general policy of information dissemination to improve transparency (Martin 1989, p. 5). The provision of such information will to some degree increase the political cost of those forms of assistance which are preferred by lobby groups merely because their costs are not immediately evident. The establishment of an institution which acts to enhance the transparency of policies in operation, such as the Industry Commission, is one means of increasing the available information about the issues involved in a particular decision yet to be made by government. In New Zealand, the Official Information Act is a limited means of obtaining information held in the bureaucracy, but is not a substitute for full public discussion (and hence equality of access).

Government departments are large holders of information. They have a role to educate and inform the public of the issues involved. They can balance the power of different interest groups with the information they hold. However, they may also be influenced by industry associations that help to determine their policy viewpoint. Departments also have access to Ministers and indeed have to guide Ministers on many points of detail and law.

An independent transparency agency may increase the supply of public information, but have little direct part in the decision process. The situation could develop where the independent agency is frustrated by the obscurities of government decision making. In fact, political decision makers still have to look at all the alternatives in front of them including re-election prospects, previous promises, unwritten rules and previous case law (written rules). There is still a role for public scrutiny of these decisions.

Reform of Institutions and Public Choice

In the administrative system there are rules and conventions that define the respective roles of politicians and bureaucrats. In the Westminster model, politicians are decision makers and bureaucrats are advisers and

implementers. In the decision hierarchy, messages pass in both directions; advice is passed upwards, decisions are passed downward. The roles are well-defined and the system works reasonably satisfactorily. The parties are held together by a common belief in the national interest.

The self-interest of politicians and bureaucrats is emphasised by public choice theory. The common goal of the national interest is downplayed. Both groups form alliances with other interest groups in the name of their joint interests. Powerful interest groups may arise within institutions that stand in the way of reform. Quasi-autonomous government organisations (quangos), may form new interest groups and alliances, and develop accountability problems.

The public choice view of the Westminster type model and the self-interest model is that there is a superior way of organising society's needs. By definition, this would have to be judged by some wider view of welfare, that treated producers and consumers absolutely equally, and was absolutely fair to everybody. This superior way, of course, is one based on less government intervention in the economy and a close attention to how individuals interact with each other. This would be achieved by negotiation and by defining the rules of conduct in new ways so that the institutions of society will operate nearer to the individualistic ideal, with a minimum of intervention.

Bringing the above arguments together, the policy implications of public choice aim to minimise the role of the state, limit the discretionary power of politicians, reduce public monopolies to a minimum, curb the functions of government agencies, and maximise liberty. Because politicians can be expected to abuse their power, the argument is that politicians should be prevented, if necessary through constitutional changes, from running budget deficits or imposing taxes beyond a certain level (Brennan and Buchanan 1980, 1985; Buchanan 1987).

Similarly, because departments have a vested interest in their own survival, it is undesirable they should both advise their political masters as well implement policy (Treasury 1987, pp. 75-76). The possibility exists that their advice will be biased and bureaucratic capture may occur. Consequently, advisory, regulatory and delivery functions should be separated out and undertaken by different agencies. Wherever feasible, other services provided by government agencies, such as education and health care, should also be privatised or contracted out to private sector suppliers to make them accountable to the relevant consumers.

At the political-bureaucratic nexus, the implication is that ministerial policy advice itself should be made as contestable as possible (Boston 1991, pp. 3-4).

In summary, these reforms would require the overhaul of many public institutions (Martin 1989, p. 6). Significant changes in the performance of these institutions are likely to be the result of changes in the rules under which they operate rather than changes in personnel. The need is to reform institutions in such a way that individuals will perform efficiently while increasing their accountability to the relevant consumer groups. This can

be achieved by giving state organisations clear objective functions as to profitability and performance, including appropriate accounting systems as well as identifying those tasks which could be quite adequately undertaken in the private sector.³

The New Managerialism

This refers to a different but not unrelated set of ideas to public choice focusing on the introduction of better systems of management in the bureaucracy (Boston 1991, p. 8). Aucoin (1990, p. 116) refers to two separate paradigms of governance and management. The first is public choice theory which focuses on the need to re-establish the primacy of representative government over bureaucracy; the second is managerial theory which focuses on the need to re-establish the primacy of managerial principles over bureaucracy. Managerialism is a set of ideas emanating from sources external to public management *per se*, namely the literature on private sector or business administration. It stresses that the capacities of modern complex organisations to realise their objectives can be enhanced by management structures and practices which reduce the bureaucracy involved in their operation.

The two paradigms are likely to introduce a measure of tension, even contradiction, in their application to changes in organisation (Aucoin 1990, pp. 125-126). Public choice sees politics as pervading management; that is, politics is present in both the formulation and the implementation of policies. Managerialism sees politics as present essentially in the determination of the basic values or missions, and thus the policies, of an organisation. Thus, in one case, politicians must 'tame' the bureaucracy via a concentration of power in the elected representatives, while on the other, bureaucracy must be freed of excessive controls especially on line managers. In the first case, the perceived need is to eliminate the capture of the bureaucratic organs of the state by groups that pursue their narrow self-interest in order that elected representatives be able to represent the public's interest in public policy; in the second case, the need is to give high priority to the responsiveness of bureaucrats to their policy constituencies.

Hood (1991) has isolated what he calls the doctrinal components of the new public management (see also Boston 1991, p. 9):

- (i) Hands-on professional management in the public sector.
- (ii) Explicit standards and measures of performance.
- (iii) Greater emphasis on output controls.

³ Economists in government service are likely to find themselves working on institutional structures, legislation and monitoring systems as well as policy advice. That is, they will have a great deal to do with setting the rules for individual behaviour and less to do with designing systems of intervention. Their advice will have a lot more to do with the allocation and exercise of property rights and less to do with industry subsidies and government intervention.

- (iv) Shift to disaggregation of units in the public sector.
- (v) Shift to greater competition in the public sector.
- (vi) Stress on private-sector styles of management practice.
- (vii) Stress on greater discipline and parsimony in resource use.

These components suggest the direction in which reforms will move. That is, there will be a greater stress on management skills as opposed to professional skills, greater accountability through measures of performance, a shift from input controls to output controls, the separation of commercial from non-commercial functions, a shift to contracts and public tendering procedures, more flexibility within departments, and cutting costs in the public sector.

The New Zealand Experience

In this section recent New Zealand administrative reforms are summarised. The key legislation was the State Sector Act 1988 and the Public Finance Act 1989. In the State Sector Act 1988 the activities that departments undertake were refined and reviewed, and in the Public Finance Act 1989 the system of accounting and financial reporting was established. The emphasis in the State Sector Act was on outputs rather than inputs, and the Public Finance Act provided for better information for those making decisions (Department of Statistics 1993, p. 25).

The State Sector Act

The purposes of the State Sector Act 1988 were twofold. It established a framework for a new relationship between the heads of departments and their Ministers and it created a new industrial relations regime, giving Chief Executives the power to hire and fire staff and within limits to fix salaries within their departments (Treasury 1989). The contractual relationship between the chief executive and the Minister specifies what a department proposes to deliver and, through the chief executive performance agreements and departmental purchase agreements, specifies the performance levels to be expected (McTigue 1993).

Outcomes are defined as the set of goals and objectives the government or the Minister wishes to achieve. Outputs are defined as the goods and services departments deliver. Inputs are the resources which departments use to produce goods and services. The production of outputs is the domain of the chief executive who is accountable to his Minister and Cabinet. The agreements relate to these outputs and not to the inputs as in previous administrative systems. The hours put into policy work are not considered as relevant as the results which are delivered (McTigue). The agreements provide an *ex ante* specification of the performance required of each party and also for *ex post* reporting of actual performance against that specified.

The Government becomes the purchaser of outputs of goods and services. As (often) the only customer, it is interested in the price, quantity, quality and delivery date of the output. A Minister from one

portfolio may buy from several departments. A department may sell to several different portfolios. The Government is also the owner of resources of departments. As owner on behalf of the people of New Zealand, it wishes to ensure that its capital assets are used efficiently and maintained wisely. Each department has a Minister overseeing the ownership interest. The Government is also the funder of benefits and grants that the department distributes on its behalf (Treasury 1989, p. 12).

'Policy Advice' is a common output to all departments. In the agreements, departments can describe the area they are responsible for and the types and quantity of advice they propose to 'sell'. They necessarily must allocate resources to this output and provide costings. Government must in its turn 'purchase' policy advice.

The question then is whether Government gets good value for its money? (Bradford 1993). This question was the subject of a review by the Government in 1991 (State Services Commission 1991). This review drew attention to the conflicting objectives which face Ministers, the weak incentives to reduce costs, an information imbalance that tends to favour departments, and the lack of a unified purchasing strategy. According to the Commission, these factors taken together tend to increase costs, make it difficult to compare the relative quality and utility of different outputs and are likely to lead to the purchase of a greater volume of policy advice than is really required (SSC 1991, p. 5).

Planning to meet these failures continues (Moriarty 1993). The Treasury view was that market mechanisms should possibly be introduced to exert an influence on these transactions. Internal or open markets would lead to a greater number of potential suppliers with consequent improvements in quality and price. Open markets should encourage new firms to engage in this type of activity with consequent effects on innovation in the way policy is prepared and presented, and encourage efficiency. However, difficulties arise with Ministers, there are confidentiality considerations, and transaction costs could be considerably higher. Treasury have therefore turned toward an internal rules approach which concentrates on: improving production and quality control processes, adopting a corporate planning approach including a fiscal cap, better specification of policy advice outputs, and better pricing of policy outputs.

From the point of view of the previous discussion, it is important to note that the new accountability framework was developed by Ministers in 1987-88, even if only by a select band of them. This is said to reflect a deep felt hostility to the public service arising out of the party's previous experience when in government (Boston 1991). The ruling party has changed since the legislation was introduced but the same accountability principles have continued. These 'rules' only apply to government departments and an equivalent set of rules has not yet been worked out for statutory authorities (but see discussion below of the Producer Boards Act Amendment Bill).

The performance of chief executives will be monitored by the State Services Commission (SSC) on behalf of the Minister in charge of the

department. The contractual situation is quite specific and holds the chief executive accountable for departmental performance. Previously, under the State Services Act 1962, employment conditions, appointments, and remuneration were set by the SSC. Apart from being consulted at appointment of chief executives, Ministers had little say in the delivery of policy advice (Scott, Bushnell, and Sallee 1990, p. 154). Under the new system, the direct link in accountability is therefore one of the major points of departure from the traditional Westminster system.

In general, the monitoring of chief executives by the SSC recognises the plain fact that Ministers cannot monitor everything. The essence of the old system was delegation. Indeed, it seems clear that Ministers cannot monitor all the changes in policy in a detailed portfolio without the help of their departmental advisers. The agreement on departmental outputs and outcomes appears to be the only place where such discussion can take place, and this could be quite infrequent. Such arguments thus reinforce the central idea of the Westminster system that Ministers and Departments should be seen as indivisible.

The Public Finance Act

The Public Finance Act 1989 provided for the improved financial management system that would back up the State Sector Act. Financial management reform should provide better information to Parliament as representative of the people, should assist departments to perform their functions better and should provide for improved managerial performance (Treasury 1989, p. 7). The system is based on complete accrual accounting and replaces the former cash flow system employed by departments. Though the system was introduced in steps (known as Modes A, B and C), the final version provides for pricing of all outputs, the introduction of a capital structure, and the payment of notional interest, tax and dividends. This system thus provides for comparative costs of purchasing policy advice both within and without government. Parliament then agrees to an appropriation to purchase each departments outputs (Treasury 1989 p. 20). In turn, Government can aggregate the accrual-based balance sheets for departments to that of the government sector as a whole (Scott 1993).

The reforms stress administrative performance rather than quality of policy advice. They allow departments to become leaner and meaner because they have more control over the delivery of outputs. They increase the flow of management information possibly to an excess. But, they do little or nothing for improved quality, relevance and supply of information to all interest groups. In fact there is now a tendency to hold information as it might reveal political preferences or advantage to an alternative supplier. What is addressed is Ministers' concerns for 'unreliable' or conflicting advice on the part of departments. This can only be achieved if Ministers and Parliament can provide the necessary monitoring and control functions that the Acts provide for. Not only was there a political perception that departments had excessive say in affairs of the

state, there has also been a fiscal necessity to carry out the functions of government in as economical way as possible. Scrimgeour and Pasour (1993) make the point that as the potential for extracting rents declines, interest groups like the Federated Farmers change their strategies from extracting favours from the political system to extracting returns from the market place. Similar observations have been made in the Australian context (Martin 1989, p. 10).

The mixture of theories explaining these reforms have been examined by various authors (Boston 1991, p. 8; Walsh 1991, p. 73). They draw on agency theory (especially in the area of chief executives contracts with Ministers) and on transaction-cost analysis (in providing government services) as well as public choice to explain the new managerialism. It is particularly noted that managerialists assume that the principles of management applied in the private sector can and ought to be applied in the public sector (Boston 1992, p. 21). The authors show that this is not always the case in their subsequent discussion. Two reasons are suggested: that a concern for economising on resources would lead to a cut in the quality of service to the public; and that the ethic of cooperation among civil servants would be undermined, to the detriment of policy advice and the collective interest of the government as a whole. Hood (1991, p. 6) observes that the synthesis of public choice, transactions cost theory and principal-agent theory in New Zealand is relatively unique, and that it has produced a new public management movement of unusual coherence (from a design point of view). Further experience is needed to test whether it is cost-effective and relevant to the task that has to be carried out.

The implications of the State Sector Act and the Public Finance Act for the Westminster system derive from the new contractual arrangements (Hensley 1993). Free and frank advice to Ministers is at the heart of the Westminster system. The State Sector Act alters the senior appointments procedure and replaces permanent tenure. The end of a contract appointment could be a bad time for giving free and frank advice. As well, the agreement for monitoring of outputs and outcomes formalises the relationship between Minister and chief executive, whereas under Westminster the two were regarded as indivisible. The Official Information Act also puts pressure on policy advisers as there is an option not to put offered advice in writing.

Another consequence of the separation of functions would be an increased Ministerial staffing. This also changes the relationship between Ministers and departments, potentially diminishing the importance of the advice received from departments. Further experience with the separation arrangements is needed to judge whether the role of Parliament is affected by the increased powers given to Ministers.

Application to Statutory Marketing Boards

The thrust of reforms of producer marketing boards has been somewhat different to that of state departments. Here the stakeholders have been identified as the producers rather than the government, even though the boards derive their authority by statute. The Dairy Board Amendment Act 1992 sought to make the Board more independent of government and more accountable to the industry (Johnson 1993). In the Act, the cooperative dairy companies and their suppliers were decreed to be the owners of the board's capital, and provision was made for more commercially oriented financial reporting, along with five yearly independent performance and efficiency audits. Specific activities of the Board are to be exempt from Part II of the Commerce Act 1986, which regulates trade practices. The activities exempted are those relating to the establishment of price, product acquisition and the distribution of surpluses.

This change in legislation clarifies two issues. It makes the producers (the appropriate constituency) and not the Government responsible for monitoring the commercial performance of the boards, and it also makes the boards responsible for reporting to Government on the conduct and performance under their statutory powers. While officials see these changes as routine amendments to continuing legislation, the thrust of the reforms is consistent with a public choice view of delegation and responsibility.

In August 1993, the Government introduced the Producer Boards Acts Amendment Bill. This bill exempts specific activities of the Apple and Pear Board, including its ability to cross-subsidise, from the anti-competitive provisions of the Commerce Act. The bill introduces similar provisions to the Dairy Act to improve the Board's accountability and provide for five yearly efficiency and performance audits. There is a requirement that the Board holds annual meetings for its 1600 growers and furnishes reports that comply with the same standards expected of public companies (Johnson 1993).

In these cases, successive governments have taken the view that statutory authorities should be made accountable in similar ways to departments but that the chain of accountability should rest in producers hands. In addition, there are a number of requirements on the boards to report to Parliament. This is consistent with an unwritten rule, widely believed by politicians, that the marketing boards should be controlled by producers, even if protected by statute. In this sense, politicians have taken a private interest view of the issue and modified any public interest in the matter. This would be consistent with Martin's conclusions with regard to the Australian Wheat Board and the Australian Dairy Board, where long-running negotiations were needed to get final agreement on their reform (Martin 1990, pp. 199-202).

Public Policies for Agriculture Assessed

In this section, the major themes that have been raised in the previous sections are discussed.

- (i) Reform of agricultural assistance: these reforms were the earliest to take place and were driven by the right-wing zeal of a Minister of Finance at a time of fiscal restraint. It seems likely that the Minister was inspired by individualistic notions of government though his party was typically of the left and would normally have supported an interventionist role for government. The most significant policy change was the freeing of the exchange rate in March 1985 and the results that followed from the decision. In broad terms, these reforms were consistent with the public choice platform of lessening the role of the state.

An unexpected effect of the assistance reform was the growing dominance of macroeconomic policy. In terms of departmental responsibility, this involved a reduction in the power of the peripheral departments and a concentration of power in the Treasury and the Reserve Bank. Agencies like the Ministry of Agriculture have a lesser role in central policy making in this framework and a greater concentration on technical matters.

- (ii) The separation principle: there has been a considerable reform of the departments of state in the land, water and air area. Reform of the land departments commenced first and was largely driven by environmentalist concerns that commercial operations should be separated from policy advice and administration functions. The environmentalists were backed by the Treasury in their recommendations. In the Ministry of Agriculture, fees for extension and meat inspection activities were introduced from 1985 (those for meat had been withdrawn in 1975 due to a downturn in the commodity cycle). Administrative reform in the Ministry commenced in 1988 with a consolidation of divisions and removal of middle management positions. The separation principle does not seem to have been as important at this point as much as administrative economy focusing on management by objectives. The position was changed in 1992 when the science functions of the Ministry were transferred to the new crown research institutes. This gave scientific activities a clearer focus and line of accountability but left technology transfer a poor orphan. Through 1991 and 1992, a review of inspection services was carried out to establish separation of delivery functions from the policy function, but was not proceeded with when trading partners objected to dealing with any agency but a government agency. A similar review of extension services went to the point of establishing a new management structure for a stand-alone agency, but again this was put on hold due to doubts about such an agency's financial viability. Compared with the environmental agencies, the reform in agriculture services has been only partial, apart from the complete separation of scientific services.
- (iii) Public interest versus private interest theories: in Martin's (1990, p. 197) analysis, he found a mixture of public interest, contractarian (rule-based), and private interest theories applicable in Australian

agricultural policy development. In a similar review of New Zealand policy developments in the last twenty years, this author found that the majority of the policies examined showed public interest characteristics (see Appendix 1). Out of 18 policy issues examined only 5 were clearly in the private interest domain. These were input subsidies, irrigation subsidies, government supported minimum prices, drought subsidies and fishing quotas. Even these cases have attributes of public interest in each of them. A recent assessment of Australian native forest management policy (Rose 1992) concluded that the Becker model of competitive pressure groups had limited application, and that wider public choice theories would not offer a complete explanation of policies adopted. Rose also emphasised the role of economists in examining the incentive effects of different property rights and regulatory regimes and in providing objective information to the policy making process.

- (iv) The Westminster model: various authors, like Hensley (1993), make the point that the Westminster model of government is an evolving system, being modified by different countries in slightly different ways, and adjusting to the pressures placed upon it. In the New Zealand case, there are four developments which are modifying the classic model:
 - (a) the State Sector Act altered the senior appointments procedure and replaced permanent tenure with a contracts system. This has the capacity to reduce the independence of advice at least toward the end of an appointment and of course allows for much greater political say in the initial appointment. It also makes a department responsible to a Minister and not directly to Parliament.
 - (b) the Official Information Act allows for interested parties to obtain relevant information from departments on decisions that affect them. This transparency is desirable from the individual liberty point of view but seems likely to be a restraint on those who tender sensitive policy advice to Ministers. It is avoided by not committing opinions to paper though Ministers do have a veto on confidential information that is supplied to them under the Act.
 - (c) the Public Finance Act provides for a contract between a Minister and a chief executive. This form of agency theory could drive a wedge between a Minister and his or her department, where Westminster theory holds the two to be indivisible. An arms-length relationship is created where a Minister purchases outputs from his department, and where the relationship between the two is governed by the purchase agreement and by a performance agreement which sets out the responsibilities of both the departmental head and the Minister. This thus leads to an ambiguity as to who is responsible to Parliament? It may take a Crichton Down case to clarify this conundrum, though in New Zealand the principle of ministerial responsibility is already very weak.

- (d) there is increased provision for support staff in Minister's offices. Hensley points out that the Minister's office is the most suitable source of regular political input into the advice he is receiving. However, increases in the staff have the potential to turn into new departments. With the original department at greater arms-length and a policy unit in his office directly responsible to him, the influence of the first department could wane, lose interest and then key staff would look elsewhere.
- (v) Reform of institutions: the general trend towards less intervention and increased responsibility for agencies has changed the role of economists in government. Economists are likely to find themselves working on institutional structures, legislation and monitoring systems, and less on interventism mechanisms. As responsibility for certain activities becomes more decentralised, the need for monitoring increases and the need for financial assistance and outright incentives decreases. Decentralised institutions require better designed constitutions to carry out their role more independently of government. It is significant that the Resource Management Act is grounded in property right theory, and allowance is made for market solutions to externality problems. The present author has taken the view that legislation design was the single most efficiency improving factor in the Act (Johnson 1992). It will also be necessary to define the biophysical limits of the resources concerned, and once they are known, economists can develop suitable market mechanisms for managing the resources. These are necessary conditions to make the Act operational (R. Jeffery, pers. comm.). Reform of marketing board legislation also shows a common thread of increased accountability and independence through institutional changes. These changes do not go far enough in preserving some authority for central government. On the other hand, current reforms have tended to reinforce the private interest view of self-determination and decentralisation in the case of the marketing boards.
- (vi) The role of information: in the discussion so far the key role that information and transaction costs play in the economic reform process has been emphasised. Equality of access to information is a vital ingredient to good policy making. Government could be a provider of information if market failure can be demonstrated; this would serve to balance the power of different interest groups through increased transparency. New Zealand could have an Industry Commission which could serve to balance information flows. The role of information in this way has not been analysed in recent debates in New Zealand; indeed, departments have tended to reduce the size of their information departments in times of fiscal frugality. In the Ministry of Agriculture, the information section has been disbanded and the distribution network for extension pamphlets sold to private enterprise. It appears that the role of information as

a public good has been completely overlooked in this case. Prior to 1984, extension pamphlets and farm advisory work were one of the major public activities of the Ministry.

Departments of state still need to collect information to carry out their contractual obligation to advise the Minister. This requires the cooperation of the private interest groups and statutory bodies whose actions are under scrutiny. Such information may not always be forthcoming or reliable. The collection of information also requires departments to reconsider their information gathering activities, how they store that information and how they use it. This means that the economic research activity of departments needs to be enhanced and closely coordinated with policy advice functions. Presumably, this is what the Australian Bureau of Agricultural and Resource Economics (ABARE) mean when they talk of improving the efficiency of the research process and the quality of the research undertaken (Curran, Hartland and Fisher, 1993, pp. 9-11). The key factor in developing a program of applied research is in accurately anticipating the practical usefulness of the research, perhaps several years in advance. In ABARE, activities directed to anticipating upcoming issues of policy debate are given a high profile. Nevertheless, if research duties are combined with policy advice duties, some internal conflict with senior management may result when it comes to setting staff priorities.

- (vii) Codifying departmental plans: in the changed system of public management, the Minister 'purchases' outputs from a department through a purchase agreement and a performance agreement. These are prepared by departmental officers, and the Minister can agree or disagree with them. The relationship is likely to suffer from considerable information imbalance. Ministers will have considerable difficulties in monitoring the agreements without outside help. The result is therefore likely to be either a lack of monitoring, or an increase in staff for the Minister, or the delegation of the task to another agency. In New Zealand, the monitoring problem is being resolved by the State Services Commission taking over this role.

What is the performance agreement to specify? Is it to be so many ministerial answers, so many questions in the House replied to, so many publications prepared? Are departments to be viewed as some factory producing a certain number of pre-defined products? What about long-term planning? As a profession, economists are not likely to be very satisfied with this approach. But consider the alternatives. Can civil servants anticipate the policy issues of tomorrow? What is an optimal level of policy advice? Is policy research like basic research in that there will also be some research which will be 'unsuccessful' and hence, with the benefit of hindsight, will be considered as 'wasteful'?

These questions lead back to defining what a good policy and research plan should accomplish? An appropriate agency needs

competent officers, a high level of in-house training, a strong *esprit de corp*, and a strategic plan that provides for both the research function and the policy function. Research has to be conducted in some isolation, but it has to be managed by the policy directorate. Needless to say, such an agency will have to be granted the necessary resources to carry out its defined task. Codified plans could help in this objective by defining more closely what is essential to the tasks involved and shedding the dross. Accounting systems, for example, still do not incorporate zero-based budgeting which would focus more clearly on the definition and delivery of outputs to Ministers at the margin.

- (viii) Agricultural advice in the total economy: the role of different departments in New Zealand has changed as recent reforms have been introduced. Economists in agriculture will move into institutional matters more in the future. This will be due to the decline of influence in the macroeconomic policy arena, and the rise of environmental concerns as expressed by the Resource Management Act. Economic research at the farm level has virtually ceased as the department has moved to cost recovery. An exception to this generalisation appears to be in the area of international trade. Recent GATT negotiations have had a strong agricultural component and appropriate advice has been strongly influenced by the Ministry. In other respects, however, there is tendency by some to view all policy matters as technical matters to be solved at the technical level. The outcome is likely to be a decline in the role of economists and of economic research in the Ministry.
- (ix) External reviews of policy decisions: the question arises out of the earlier discussion of political decision making as to who monitors the decisions actually taken? The point was made that such decision-making was guided by a range of factors including previous promises, manifestos, prejudice, policy advice, and previous decisions to name but a few. Two suggestions come to mind. The profession can encourage and lead public debate of issues before they get to the decision point and thus make more transparent where the national interest lies. The profession can also offer *ex post* analyses of decisions taken or the results of decisions taken and make these more publicly transparent (see, for example R. Gerritson 1992, for a perceptive review of Australian agricultural policy in 1990 and 1991). This role requires different institutional arrangements to those that operate at the present as such a role does not fit neatly nor comfortably in to contractual delivery arrangements with Ministers. Perhaps this has to be the role of economists outside Government?

Conclusion

In this address the political framework in which agricultural policy in New Zealand is determined has been examined. No sharp dichotomy

between public interest theories and private interest theories of government has been found. The implication of this conclusion is that self-interest theories of government are not particularly applicable in the New Zealand case. If anything, there has been a slight swing in opinion toward more self-sufficiency in commerce and less government intervention, suggesting a modified private-interest theory that reduces the need for pressure group activity.

In general, bureaucratic reform in recent years has been driven by notions of public choice theory and fiscal necessity. This has certainly affected the agricultural bureaucracy and made it more concerned with the separation of policy and delivery, greater productivity, with a consequent emphasis on technical objectives. These technical objectives relate to public goods and services which generally can only be provided by central government in the areas of agricultural security and environmental protection.

Has the role and importance of the agricultural bureaucracy been lessened? The conclusion must be that it has, but only because general government reform has been directed at less economic intervention and greater decentralisation.

On the broader questions, has the paramountcy of the elected representatives been enhanced and the rights of individuals increased? The reputation of the elected representatives has been in decline in the period concerned, due to voters preferences for honesty and straight dealing. Commerce has gained more independence but it is not clear if individuals are better represented.

Has New Zealand moved to a more constitutional approach to the art of governance? The answer here is positive; due to a co-incidental public movement to preferential voting which would be difficult to associate with the public choice theorems there has been a decided change toward a possibly better constitutional arrangement.

Have constitutional changes been introduced to limit budget deficits or impose limits on tax levels? On taxes there is not, but on budget deficits there is at present a Fiscal Responsibility Bill before the House of Representatives which would set debt repayment as a primary goal, make budget surpluses mandatory, and hopefully encourage higher international credit ratings.

Has the Westminster system been changed substantially? The answer is probably negative; there has been a wedge driven between Parliament and officials through the introduction of chief executive contracts and agreements, but the core relationship between Ministers and Parliament remains unchanged. The main problem is that Ministers and Departments can no longer be regarded as an indivisible entity. The strength of the present system lies in the power assumed by the Cabinet vis a vis Parliament, and this does not appear to have changed.⁴

⁴ However, the introduction of a Mixed Member Proportional voting system (MMP) in 1996 is likely to change the relative power of the parties and thus the solidarity of the Cabinet.

In the end, the formation of economic policy is a long term phenomena determined by changing market forces and the collective responses of society to them. Public choice is but a *theory* of governance that reflects increased concern for the rights of the individual and possibly better ways society could meet current and future problems. Increased managerial efficiency in government mainly reflects fiscal necessity and is only indirectly related to philosophic questions of cause and effect. There is no doubt that public choice is useful in *framing* policy propositions (among the bureaucracy) but in the end, it is the public representatives who make the decisions and thus shape future policy directions.

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