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Cultural Change Within the New Zealand and Australian Treasuries

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Abstract: Cultural change within two Treasuries is explained in terms of their secretaries' use of agenda-setting, strategic recruitment and “expression games”. A different institutional context allowed the New Zealand Treasury (NZT) to exercise a more dominant influence than the Australian Treasury (AT) although the postwar hegemony of a market failure (MF) paradigm meant that a “culture of balanced evaluation” was preserved in both agencies. The erosion of this paradigm's authority in the 1980s prompted cultural re-invention in both agencies as they aligned themselves with reformists committed to policies derived from a government failure paradigm. The stronger reaction to the alignment of the more dominant NZT has placed it under more pressure than the AT to reinvent itself again in the 1990s.

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Cultural Change Within the New Zealand and Australian Treasuries

In a recent feature article, Alan Bollard, the current Secretary of the New Zealand Treasury (NZT), was quoted as saying:

Culture is something that is quite big in Treasury. If you're trying to change Treasury you're trying to change the culture as well. And I am trying to change Treasury and change culture¹.

This paper will attempt to explain the cultural changes that occurred in the NZT and its Australian counterpart during the significant economic policy reform episode both countries went through in the late 1980s and early 1990s. It divides itself into five main sections.

Section 1 will advance some general propositions about how the secretaries and senior officials in these control agencies can perform the organizational leadership function of shaping their culture. Section 2 will then compare the institutional context within which the New Zealand Treasury (NZT) and Australian Treasury (AT) operate. It will highlight why the NZT tends to play a more dominant role in the policy process than its Australian counterpart. Section 3 will examine how the postwar hegemony of a “market failure” (MF) policy paradigm led the secretaries of both agencies to preserve a “culture of balanced evaluation”. Section 4 will consider how the NZT had to reinvent itself in the early 1980s so that it could contribute to the supply of the “strong leadership” required to effect paradigmatic policy change while section 5 will examine a similar change within the Australian Treasury (AT). Section 6 will conclude the paper by considering why the NZT is under more pressure to reinvent itself again in response to an accumulation of threats to its authority in the 1990s.

1. A THEORY OF CULTURAL CHANGE WITHIN CONTROL AGENCIES

It is somewhat surprising that, as bastions of “economic rationalism”, the NZT and AT have not turned the laser edge of their analysis to the behaviour of their own officials. One reason may be that the budget-maximizing models economists use to analyse the behaviour of bureaucrats² may not be particularly relevant to control

¹ R. Laugesen and N. Maling, 'Treasury Island', *Sunday Star Times*, (Wellington, 2001).

² See A. Breton, and R. Wintrobe, *The Logic of Bureaucratic Conduct* (Cambridge: Cambridge University Press, 1982; J. Migue and G. Belanger. 'Towards a General Theory of Managerial

agencies. The officials who work for these agencies are likely to be more motivated to contain spending across departments than to engage in empire-building budget expansion within departments. This may be because they are typically subject to at least part of the blame for budgetary “blowouts” and for the failure of governments to sustain prudent fiscal policies.

Dunleavy’s “bureau-shaping” model may be more relevant for analysing the behaviour of officials in powerful control agencies such as the NZT and AT that have the capacity to shape bureau behavior throughout the public sector³. This model basically holds that bureaucrats pursue their objectives mainly “at the individual level, searching for career or promotion paths which lead them into an appropriate rank in a suitable sort of agency”⁴. However, they will also seek to shape the nature of the organization they work in so as to maximize their utility. Dunleavy identifies five ways in which they can pursue this type of rational “bureau-shaping”. They can launch or support organizational restructuring. They can transform work practices within the organization. They can redefine relationships with actors outside the organization. They may encourage competition with other government agencies. And they can “hive off” or contract out low level and tedious work.

Dunleavy’s bureau-shaping model would explain why jobs in such agencies such as the NZT and AT may be highly prized. It is thus likely that their staff will consist of individuals who have been highly motivated to seek such jobs and who also have a strong incentive to retain them by conforming to the prevailing organizational culture. However, both empire-building and bureau-shaping models tend to neglect the potential for agency failure in the relationship between bureau heads and their subordinates. How do bureau heads overcome agency failure and induce their staff to commit themselves to the advancement of shared goals? Wallis and Dollery⁵ have followed Casson⁶ in arguing that by exercising effective organizational “leadership”

Discretion’, *Public Choice*, (Spring, 27-47, 1974); and W. Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1971).

³ See P. Dunleavy, *Democracy, Bureaucracy and Public Choice* (London: Wheatsheaf, 1991). The weight of theoretical and empirical support for “bureau -shaping” is set out in D. Marsh, M. Smith, and D. Richards, ‘Bureaucrats, Politicians and Reform in Whitehall: Analysing the Bureau-Shaping Model’, *British Journal of Political Science*, 30, (2000) 461-2.

⁴ Dunleavy, *Democracy, Bureaucracy and Public Choice*, p.202.

⁵ J. Wallis and B. Dollery, *Market failure, government failure, leadership and public policy* (London : Macmillan Press, 1999).

⁶ M. Casson, *Economics of Business Culture: Game Theory, Transactions Costs and Economic Performance* (Oxford: Clarendon Press, 1991).

these actors may save some of the transactions costs involved in negotiating, enforcing and monitoring contracts designed to limit agency failure.

We propose that the key elements of both bureau-shaping and agency-theoretic leadership models may be combined to derive the basic proposition that will be advanced in this paper. This is the proposition that the essential leadership task of the head of a control agency such as the NZT or AT is to shape its culture to achieve a target level of influence over the policy process. To explain how the culture of a control agency can be shaped by its head, it is necessary to consider the typical activities its officials engage in when they interact with one another and with policy actors outside their organization during those phases of the policy cycle that involve defining problems, formulating proposals and evaluating and drawing lessons from policy implementation. According to Hecl⁷ these activities can often take the form of “puzzling”. He argued that: “Politics finds its sources not only in power but also in uncertainty - men collectively wondering what to do . . . Governments not only ‘power’ . . . they also puzzle. Policy-making is a form of collective puzzlement on society’s behalf”⁸.

There are two ways in which the head of a control agency can try to influence these activities so as to shape its culture. The first is through the very familiar process of “agenda-setting”. This official can set the agenda for agency staff by focussing their attention on those policy issues that are deemed to have the most importance and dividing them into teams charged with the task of formulating an agency position on these issues. If organizational “culture” is understood to be broadly equivalent to “organizational identity” then agenda-setting can be seen as a culture-shaping activity since it has the effect of conveying “identity” in the sense of establishing where the organization “stands on issues of importance” to it⁹.

Secondly, the head of the agency can attempt to transform interactions that bring actors together to “puzzle through” these issues into what Goffman¹⁰ called “expression games”. These games emerge between “senders” who express themselves in particular ways, and “receivers” who take in and react to such expressions, forming an impression of the “senders”. The interpretation of political expression, in

⁷ H. Hecl, *Modern Social Politics in Britain and Sweden* (New Haven: Yale University Press, 1974).

⁸ Hecl, *Modern Social Politics in Britain and Sweden*, pp. 305-6.

⁹ C. Taylor, *The Self and Modern Identity* (Cambridge: Cambridge University Press, 1989).

¹⁰ E. Goffman, *The Presentation of Self in Everyday Life*. (New York: Anchor Books, 1959).

particular, is likely to involve “making inferences from the expressive act about the sender’s motives, values and commitments”¹¹.

Dunleavy’s bureau-shaping model suggests that the agency staff members who engage in such games can be conceived as seeking to maximize their reputation within the agency and with its head since this will not only affect their income and career prospects but also their access to interesting and challenging work opportunities. They will therefore be concerned with the effect the impression they convey in such games has on their reputation. This incentive will be reinforced to the degree that the agency’s promotion and recruitment policies signal to current and prospective staff that they will be rewarded for conveying the “correct” impression,

This impression will relate to at least two of their traits. The first is their “competence”. They will be aware that “receivers” are evaluating the contribution they make to “puzzling” to assess both their analytical capacity and their ability to relate it to the problems at hand. Secondly, they will be aware that other receivers and the agency head, in particular, will be seeking to form an impression of their “trustworthiness”. This will be assessed in terms of their commitment to, and identification with, the “core belief”¹² the agency has about how it can best serve the “public interest”.

To assess trustworthiness in these terms receivers may scrutinize the statements of senders for their “political correctness”. If they are aware of this, senders may attempt to pass a threshold of acceptance by using “code” words or phrases that signal their allegiance to the core beliefs of the agency. This also suggests that they may practice what Loury calls “self-censorship”. This is because “members whose beliefs are sound but who nevertheless differ from some aspect of communal wisdom are compelled by a fear of ostracism to avoid the candid expression of their opinions”¹³. However, if the expression games pass what Collins¹⁴ termed “thresholds of physical density”, participants may be close enough to one another for a sufficient length of time to detect the fall off in “emotional energy” that

¹¹ G. Loury, ‘Self-Censorship in Political Discourse’, *Rationality and Society*, 6, (1994) 432-3.

¹² P. Sabatier, ‘Toward Better Theories of the Policy Process’, *Political Science and Politics* (1991), 147-156.

¹³ Loury, ‘Self-Censorship in Political Discourse’, *Rationality and Society*, p. 430.

¹⁴ R. Collins, ‘Emotional Energy as the Common Denominator of Rational Social Action’, *Rationality and Society*, 5, (1993) pp. 203-220.

such avoidance or “preference falsification”¹⁵ can unavoidably produce. The repeated failure by an official to engage in expression games with an intensity that is “empirically visible, both in behavior (especially nonverbal expressions and postures) and in physiology”¹⁶ may eventually cause questions to be raised about both their competence and trustworthiness.

These aspects of their reputation will be of even greater concern to the individuals concerned if the agency is embedded in a relationship of trust with an elite “establishment”. Whatever impression of incompetence or untrustworthiness they may leave through their engagement in expression games as agency staff members may also affect the opportunities that their reputation within this broader social network can give them access to. These expression games may therefore assume the qualities of “repeatedness” that strategic game theorists hold to be necessary to maintain “commitment”¹⁷. The heads of control agencies such as the NZT and AT may thus have the capacity to induce their staff to conform to a distinct culture if these agencies have strong and continuing links with their country’s political and business leaders. However, there are some important differences in the institutional context within which the NZT and AT operate that must be considered in the next section.

2. A COMPARISON OF THE POLICY MAKING ROLE OF THE NZT AND AT

New Zealand and Australia are, of course, excellent candidates for a cross-country comparison of policy making¹⁸. They enjoy close economic, political and cultural ties. They share a common colonial history. They are English-speaking. Their policy makers thus tend to look to the United States and the United Kingdom for sources of new ideas - a tendency that has been strengthened by the fact that in recent decades many key policy actors in New Zealand and Australia have received parts of their education in British or North American universities. Furthermore there are

¹⁵ See T. Kuran, 'Private and Public Preferences', *Economics and Philosophy*, 6, 1-26.

¹⁶ Collins, 'Emotional Energy as the Common Denominator of Rational Social Action', *Rationality and Society*, p. 211.

¹⁷ See D. Kreps, and R. Wilson, 'Reputation and Imperfect Information', *Journal of Economic Theory*, 27, (1982), pp. 253-279.

considerable similarities in the New Zealand and Australian system of government. Both operate under a Westminster system that vests executive power with the cabinet, the members of which take “collective responsibility” for the policy decisions they agree to make. Traditionally, the “united front” cabinets present as a result of this convention and the exercise of strong party discipline, has allowed the executives in both countries to dominate Parliament in New Zealand and the House of Representatives in Australia. The existence of a Senate in Australia has meant that the ability of cabinet to control the legislative process has historically been more limited than in New Zealand where there is only a single house, although the shift to a mixed member proportional representation (MMP) system in 1996 has arguably strengthened the relative position of the legislative branch of government in the smaller country.

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

The federal government is the leading partner in economic policy-making . . . It has control over monetary policy and external trade, it can make labour law for the states, as well as controlling its own spending priorities, it has a large role in fiscal policy in the states, in that it controls a large amount of public sector revenue and so can influence their fiscal policies.¹⁹

Despite these differences, there are considerable similarities between the Australian and New Zealand Treasuries. Both play an important role in economic policy-making since they both have the official function of being controller of the government’s finances. This places them at the “centre of the administration”²⁰ so that their decisions and recommendations involve them in the “whole gamut of governmental activities”²¹.

The NZT is formally required to comment on all departmental submissions to the Cabinet which have economic implications. Since virtually every proposal

¹⁸ See F. Castles, *Families of Nations: Patterns of Public Policy in Western Democracies*, (Aldershot: Dartmouth Press, 1993); and S. Goldfinch, *Remaking New Zealand and Australian Economic Policy*. (Wellington: Victoria University Press, 2000).

¹⁹ Goldfinch, *Remaking New Zealand and Australian Economic Policy*. p.123.

²⁰ R. Polaschek, *Government Administration in New Zealand*, (London: Oxford University Press, 1958).

²¹ G. Whitwell, *The Treasury Line* (Sydney: Allen and Unwin, 1986), p.20.

presented to the Cabinet has some economic implications, this rule has allowed the NZT to have the “first word” in many Cabinet-level debates. This, in turn, has meant that the onus of making a particularly strong case is placed on any minister or department that presents a proposal without NZT endorsement. Moreover, while the Cabinet receives advice from other sources on economic issues, only the NZT has a comprehensive reporting role and maintains an interest in policy matters across the whole spectrum of government activity.

Similarly, although less formally, the AT’s “role of overseeing economic policy generally gives it a role in co-ordinating projects and commenting on and ‘pulling apart’ ‘pet’ ideas and funding initiatives of other departments”²². Like the NZT, the AT enjoys a close relationship with a high ranking cabinet minister and is able to recruit a highly educated staff to develop a distinctive “Treasury line” based on a broad picture of the economy and to present itself as the elite of the public service, immune to capture from special interest groups.

The NZT does, however, enjoy a far more dominant position in the policy process in that its advice is not routinely contested by equally powerful bureaucratic rivals. By contrast, the AT shares an equal footing at the centre of federal government with two other powerful agencies - the Department of Finance that was created in 1976 “partly to counter Treasury’s power and provide different views on economic policy”²³ and the Department of Prime Minister and Cabinet (DPMC) whose “power can vary with the prime minister”²⁴. Moreover, while the Reserve Bank of New Zealand has tended to specialize in the independent operation of monetary policy to achieve inflation targets since the passage of the Reserve Bank Act of 1989, the Reserve Bank of Australia did pursue a broader range of objectives until 1993 and did liaise with the secretary of the Treasury as it played an important role in “giving general economic advice”²⁵.

The significantly different approach New Zealand governments followed over the 1984-1993 reform episode with respect to seeking the advice of “line” departments and societal actors appear to have strengthened the dominance of the NZT compared to its Australian counterpart. This period saw a sharp break from the consultative tradition of New Zealand policy-making. The Officials Committee on

²² Goldfinch, *Remaking New Zealand and Australian Economic Policy*. p.125.

²³ Goldfinch, *Remaking New Zealand and Australian Economic Policy*. p.126.

²⁴ Goldfinch, *Remaking New Zealand and Australian Economic Policy*. p.128.

Economic Policy that provided the forum within which the NZT could consult with other government departments was discontinued while, with the notable exception of the New Zealand Business Roundtable, no peak business or labour association were given the access to the “inner circle” of Cabinet and Treasury policy makers that they enjoyed in earlier periods. This reflected the influence on New Zealand’s policy elite of Public Choice theory with its emphasis on the threat of policy capture by budget-maximizing bureaucrats and special interest groups.

By contrast, a more corporatist approach to policymaking was followed in Australia over the overlapping period. Line departments and ministerial departments developed a policy advice capacity to a much greater degree than was observed in New Zealand. Under the Labor governments of Hawke and Keating, significant attempts were made to incorporate interest and functional groups into policy formation through the Economic Planning Advisory Council. In addition, the Australian Council of Trade Unions (ACTU) exerted considerable influence on economic policy through its formal role in negotiating with the government a number of wage agreements known as the “Accord” as well as through the close ties that existed between its members and the Labour government, in general, and between its Secretary, Bill Kelty, and successive Labour premiers, Bob Hawke and Paul Keating, in particular.

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

²⁵ Goldfinch, *Remaking New Zealand and Australian Economic Policy*. p.137.

3. PRESERVING AGENCY CULTURE UNDER A STABLE PARADIGM

Like their AT counterparts, the relationship NZT officials enjoyed with their political masters in the postwar period was essentially a fiduciary one. It has been likened to that which exists between a barrister and client²⁶. While information asymmetries may characterize this relationship, in the sense that policy advisors often have more experience and expertise than their political principals, they are typically constrained from engaging in any short term, opportunistic exploitation of these asymmetries by their need to retain the trust of these principals. This trust was typically based on more than their presumed loyalty. It was also based on an expectation that these advisors could be relied upon to act in an appropriate way and that they would fulfil their professional obligations to provide free, frank and expert advice to whatever government holds office. Their behaviour was more likely to be governed by a “logic of appropriateness associated with obligatory action” than by a “logic of consequentiality associated with anticipatory choice”²⁷. The trust politicians placed in NZT and AT officials was thus based on a confidence that they would act according to a shared understanding of what is appropriate.

This understanding can operate at a number of levels. At the deepest level, it is an understanding of the appropriate role of the state in a mixed economy and therefore of the appropriate direction for any new policy initiative. In the case of the NZT and AT this understanding provided the framework within which they came to an appreciation of what functions it was appropriate for these agencies to perform within their system of government and what role it was appropriate for them to play within the policy process. This understanding gave rise to the core beliefs that their officials could be socialized into holding and that their secretaries sought to protect through agenda-setting, recruitment and promotion policies and expression games. They can be conceived as coming from a shared “paradigm”; that is, the common epistemological vision and value consensus of a knowledge-based community²⁸.

Both the NZT and AT appear to have operated within a market failure (MF) paradigm right up until the early 1980s. The intellectual authority for this paradigm derives from its roots in conventional welfare economics. It should be pointed out,

²⁶ See J. Martin, ‘Ethics’, in Boston, J. (ed). *Reshaping the State: New Zealand's Bureaucratic Revolution*, (Oxford : Oxford University Press, 1991).

²⁷ J. March and J. Olsen, *Rediscovering Institutions* (New York: Free Press, 1989).

though, that policy advisors who choose to work within a particular paradigm often play a significant “brokering” role in distilling from it principles to guide the formulation of policy proposals and rules to guide their evaluation. This means that they typically screen out some of the subtleties, reservations and ambiguities that characterize the theories they draw upon. They do this to “package” their advice in a way that satisfies the taste for certainty of politicians who “being under pressure to act decisively and dramatically, will naturally be impatient with any manifestation of the philosophic doubts which plague economists and will risk making strong assumptions about the efficacy of the policy instruments which have been assigned to their control”²⁹. Accordingly, despite the acknowledgement in normative economics prior to the 1970s of some of the second best and government failure problems associated with incremental interventionism, the dominant economic policy paradigm which institutions like the NZT and AT constructed from it, ensured that the focus of the policy process was firmly on problems of market failure.

The appropriate advisory role for these control agencies within a policy process that was primarily focussed on the generation of solutions to problems of market failure came to be one of reactive control rather than of proactive leadership. Solutions to various problems of market failure would be generated by other participants in the policy process. The appropriate Treasury role was to ensure that the consequences of implementing these proposals were adequately considered. It should be clear, then, how it would be considered appropriate that these Treasuries should have comprehensive reporting functions . By performing these functions, they could provide an institutional check against the propensity of activist elected representatives, with a short time horizon, to generate solutions to problems without adequate consideration of the costs of implementing them³⁰. In fulfilling this obligation the NZT and AT officials acquired the reputation of being the “abominable no-men”³¹. However, someone, somewhere in the system, needed to be able to say “no” and so it seemed entirely appropriate in both New Zealand and Australia that as “watchdogs of the public purse”, their Treasury officials should undertake this responsibility.

²⁸ See T. Kuhn, *The Structure of Scientific Revolutions* (Chicago : University of Chicago Press, 1962).

²⁹ A. Peacock, *The Economic Analysis of Government* (Oxford: Martin Robertson, 1979), p. 231.

³⁰ C. Wolf, “A Theory of Nonmarket Failure: Framework for Implementation Analysis”, *Journal of Law and Economics*, 22 (1979) 107-139.

³¹ B. Easton, *The Commercialisation of New Zealand* (Auckland University Press, Auckland, 1997).

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

The culture these secretaries sought to preserve appears to have been broadly defined by “Whitehall” norms. These generally oblige “public servants” to provide “free and frank advice” in the “public interest” through a balanced assessment of the values, obligations and interests affected by the situation³². Within the boundaries supplied by “Whitehall norms”, NZT and AT officials still had to draw on what Easton calls the “collective institutional memory” of their agencies³³. This collective memory would develop through an incrementalist process of precedent accretion. Even where situations arise for which no precedent has been established, there is nonetheless likely to have been some history of discussion about the issues relevant to these situations which can be drawn on to develop new precedents.

In addition to demonstrating their trustworthiness through their commitment to Whitehall norms and their respect for the collective memory of their agencies, NZT and AT officials also sought to demonstrate their competence through their mastery of analytical techniques. During the 1970s the rules they applied, wherever they could, to screen policy proposals generated outside this institution were derived from the techniques of cost-benefit analysis³⁴. Cost-benefit analysis did seem to be consistent with the overarching Whitehall culture since it allowed a balanced assessment of costs and benefits. However, its range of application was limited by quantification difficulties that could vary from proposal to proposal. It did not therefore preclude the more general features of balanced judgment-making.

³² See Martin, ‘Ethics’, in Boston, J. (ed). *Reshaping the State: New Zealand's Bureaucratic Revolution*. This writer argued that “The public interest is a useful shorthand for a set of important process considerations. These can be reflected in a checklist of things to be taken into account in relation to any policy issue, viz: regard for the law; regard for the principles of natural justice; consideration of the long as well as the short term; acknowledgement of previous commitments; avoidance of both the substance and appearance of personal or agency interest” (pp. 382-3)

³³ According to this writer, the collective memory of an institution such as the NZT is “physically embodied in its files and archives, in the learned studies which it commissions or encourages, and in the individual memories of the officials (which are in turn reinforced by maintaining informal contacts with retired officials, with think-tanks, and with people with expertise outside the ministry” (Easton, *The Commercialisation of New Zealand*, p.86).

By sustaining a culture that reflected a shared understanding of the appropriateness of their agency's control functions and supplied rules and norms to govern the behavior of its officials, secretaries of the NZT and AT sought to establish a stable and trusted identity for their agencies in their policy communities. The NZT appears to have been more successful in this regard. With respect to the AT, Weller argues that the establishment in 1976 of a potential institutional rival in the form of the Department of Finance was "designed to break the monopoly of information that Treasury held, to provide alternative sources of economic advice, and to centralise the expenditure control function"³⁵. This suggests that the NZT may have had more to lose in terms of its dominant position within the policy community through a risky cultural transformation. Why then was it considered necessary for this agency to reinvent its culture and jeopardize its trusted organizational identity in the early 1980s?

4. THE REINVENTION OF THE NZT DURING THE REFORM EPISODE

Peter Hall has argued, with reference to the UK experience in the transition from a Keynesian to a Monetarist macroeconomic policy paradigm, that the authority of the reigning Keynesian policy paradigm was gradually eroded by the accumulation of "anomalies" (such as the emergence of "stagflation" in the 1970s) and the resort by policymakers to "ad hoc experimentation" (mainly with various types of anti-inflationary incomes policies) that stretched its coherence³⁶. A similar process could be observed in New Zealand and Australia over the same period. The most striking anomaly with the prevailing MF paradigm was that it neglected the potential for government failure created by piecemeal, incremental interventions to correct instances of "market failure". The growth of government beyond its financial and regulatory capacity and the resulting problems of pervasive price distortions, inflation and fiscal stress could be attributed, at least in part, to this anomaly. Moreover, the coherence of the MF paradigm was clearly stretched in those cases where new forms

³⁴ In the case of the NZT these rules not only specified a consistent methodology for calculating cost and benefit streams, but also required that a real discount rate of ten percent be applied in all cases ("Easton, *The Commercialisation of New Zealand*).

³⁵ P. Weller, Malcolm Fraser PM, *A Study of Prime Ministerial Power in Australia* (Victoria: Penguin Books, 1989), p.74.

³⁶ P. Hall, 'Policy Paradigms, Social Learning and the State', *Comparative Politics*, 25,(1993) 275-96.

of state intervention are introduced to correct the problems and distortions associated with existing interventions³⁷.

According to Hall the breakdown and erosion of authority of a reigning paradigm is likely to eventually lead to a stage of “fragmentation” during which policy participants engage in an active search for alternatives. As Gersick has pointed out, emotional discomfort, uncertainty and puzzlement are likely to be experienced by many of these agents during this phase³⁸. Moreover, as Hall has argued the sense of “puzzlement at the top” is likely to be exacerbated by the incommensurability of the different paradigms that are pushed forward for consideration.³⁹ Those policymakers who are genuinely puzzled may thus be predisposed, at these times, to look for leadership from radical reformers who advocate the reconstruction of public policy on the basis of a new paradigm provided that this paradigm is both coherent and authoritative.

The GF policy paradigm seemed to exhibit both these characteristics. Its coherence derived from the way it sought to limit and reduce government failure through a radical reform programme that advanced parallel processes of liberalization, stabilization and public sector reform. Its authority was buttressed by the strong advocacy of these processes by institutions such as the IMF, the World Bank and the OECD. The implicit threat that hung over most countries during the 1980s that the reforms that advance these processes could be required as a condition for receiving aid from these institutions only served to reinforce this authority. However, the policy leadership that was required to reshape economic policy according to this new paradigm needed to be derived from domestic sources. It could only be supplied collectively by an “advocacy coalition”⁴⁰ whose influence extended across all areas of economic policy and through all stages of the policy cycle associated with pushing through particular reforms. The collective task of this type of advocacy coalition could only be considered to be completed when a new dominant paradigm is institutionalized so that it is embodied in the rules and operating routines of the

³⁷ The “theory of second best” has highlighted the problems with piecemeal interventionism by analysing the conditions under which a piecemeal correction of an instance of market failure may move an economy, in which such imperfections occur in more than one sector, even further away from a constrained global optimum. See R. Lipsey, and K. Lancaster, ‘The General Theory of the Second Best’, *Review of Economic Studies*, 24, (1956) 11-32.

³⁸ C. Gersick, ‘Revolutionary Change Theories: a Multilevel Exploration of the Punctuated Equilibrium Paradigm’, *Academy of Management Review*, 30, (1991) 90-109.

³⁹ See Hall, ‘Policy Paradigms, Social Learning and the State’, *Comparative Politics*, p.280.

⁴⁰ See Sabatier, ‘Toward Better Theories of the Policy Process’, *Political Science and Politics*.

control agencies and forms the locus around which a new policy consensus can be forged.

To understand why the NZT broke from its traditional “non-aligned” position to identify itself strongly with, and become a key player within, the advocacy coalition that sought to impose a new GF policy paradigm in New Zealand, it is necessary to consider the lessons it appears to have drawn from the experience of its UK counterpart. Hall argues that with the breakdown of a Keynesian policy paradigm in Britain in the mid-1970s the “locus of authority” over macroeconomic issues began to shift away from its Treasury which “hitherto . . . had enjoyed a virtual monopoly over such matters”⁴¹. The shift from Keynesianism to monetarism was led by a faction within the Conservative party whose cause was championed by a section of the British media. They were able to assume leadership of the Conservative party and when the Thatcher government took office in 1979, they were then able to institutionalize the monetarist paradigm.

A group of senior officials in the NZT appear to have absorbed lessons from the British experience. In the early 1980s they sought to pre-empt a shift in the locus of authority away from their institution by playing a leading role in the formulation of a new GF paradigm⁴². This new policy line was set out in a series of briefing papers to incoming governments after 1984 that provided the blueprint for the subsequent “New Zealand experiment” in comprehensive economic policy reform.

In directing the attention of the policy community toward problems of government failure, the senior officials who wrote these papers were effectively defining a new role for the NZT in the policy process. They essentially redefined its advisory role in a way that involved it exercising, to a greater degree than before, its agenda-setting capacity. It now became evident to outside observers, that the NZT’s

⁴¹ Hall, ‘Policy Paradigms, Social Learning and the State’, *Comparative Politics*, p.285.

⁴² In an extensive series of interviews with those actors who played an influential role in making economic policy in New Zealand over the 1984-1993 period, Goldfinch found that four NZT officials - Graham Scott, Bryce Wilkinson, Robert Cameron and Roger Kerr- were nominated as being more influential around 1984 than Bernard Galvin who was Secretary at the time. It appears that Galvin was prepared to allow these subordinates to assume the reins of policy leadership within the organization in much the same way that the Labour prime minister, David Lange, gave his finance minister, Roger Douglas, a free rein in driving the new economic policy direction through various veto points in Cabinet, caucus and Parliament. See Goldfinch, *Remaking New Zealand and Australian Economic Policy*. Easton has, with his characteristic sense of drama, described this as a “colonel’s coup” within the NZT (Easton, *The Commercialisation of New Zealand*). The influence of the “colonels” increased through the 1980s as Scott replaced Galvin as Treasury Secretary and Kerr assumed the position of director of the hugely influential Business Roundtable. See

power and influence had come to rest, above all, on its capacity to “set the broad philosophical or theoretical framework within which most policy options - certainly in the economic and social policy arenas - are formulated and determined.”⁴³ By doing so, the NZT was able to define the central questions for analysis, exclude certain issues from consideration, and reject policy solutions which did not conform to the accepted wisdom. Moreover, the NZT did not just set the agenda for reform - it also generated the bulk of the reform proposals. It appears to have reinvented itself as a credible and legitimate source of policy leadership. Easton has put it as follows: “The role of Treasury changed. Suddenly the abominable no-men were saying yes. Instead of opposing proposals for change, they were advocating them”⁴⁴. The “old” Treasury might have been partly blamed for the economic “crisis” of the 1980s. The “new” Treasury could not be so implicated since it was demonstrably contributing to the policy leadership required to design and launch a comprehensive reform programme to turn around the New Zealand economy.

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

The NZT was empowered to perform this new control function by a 1985 overhaul of the machinery through which Cabinet received policy advice. This saw a Cabinet Policy Committee being established with the task of ensuring the clarity and

⁴³ J.Boston, ‘The Treasury and the Organization of Economic Advice: Some International Comparisons’, in B. Easton (ed), (*The Making of Rogernomics*, Auckland: Auckland University Press, 1989), p.133.

⁴⁴ Easton, *The Commercialisation of New Zealand*, p. 99

coherence of all policy⁴⁵. Since this structure was serviced by the NZT, it could perform a “gatekeeper function” ensuring that in most situations its own policy line would be ascendant.⁴⁶

A major transformation of the organizational culture at the NZT appears to have also occurred during the 1980s. Easton describes how much of its collective memory was lost as considerable staff turnover led to the replacement of experienced staff with younger policy analysts. Fresh from university, they were keen to apply the sophisticated economic techniques and theories they had learnt to the type of a priori policy formulation tasks they were called on to perform at the NZT⁴⁷. They were also eager to engage in the type of expression games described in the earlier section to demonstrate their commitment to advance the GF policy paradigm.

To elicit trust from one another in these games they needed to exhibit at least three qualities which can be termed the “three P’s”- “political correctness”, “persistence” and “passion”. “Political correctness” could be demonstrated as they developed a language of their own with its characteristic “code” words or phrases⁴⁸. They also needed to demonstrate “persistence” in striving to consolidate and extend the application of shared policy principles⁴⁹. Finally, they needed to demonstrate a

⁴⁵ J. Kelsey, *The New Zealand Experiment: A World Model for Structural Adjustment* (Auckland: Auckland University Press, 1995).

⁴⁶ See J. Boston, 'The Theoretical Underpinnings of Public Sector Restructuring in New Zealand', in J. Boston, J. Martin, J. Pallot and P. Walsh (eds.), *Reshaping the State*, (Oxford University Press, Auckland, 1991) where the observation is made that: "any policy analysts . . . who reject the prevailing Treasury orthodoxy are at a major disadvantage. For in order to have their views taken seriously they must first demonstrate the validity and coherence of their own analytical framework, and this is no mean feat, particularly if has to be done in the face of determined Treasury opposition" (p. 194).

⁴⁷ Easton, *The Commercialisation of New Zealand*.

⁴⁸ Boston points out the way such advocates of the New Zealand experiment "changed the language of policy discourse" (1991, p.39). They repetitively used words such as "efficiency", "transparency", "accountability" "credibility" and "contestability" not just as short-hand terms for the principles according to which they seek to reshape the role of the state in the economy, but as "codes" to signal to one another their commitment to a common cause. "Coherence" seems to have become a code word *par excellence*. A policy participant who persistently stresses the need for coherence is someone who advocates a particular reform for the "right" reasons - not in order to counter and balance past excesses, but rather because the reform logically emerges from, and continues, a redirection of the policy process that is believed to be "the correct one" since it is founded on "the right principles". It forms part of the language of "political idealists" or "true believers" rather than pragmatists who are concerned that the policy process may get driven too far in any one direction.

⁴⁹ J. Wallis and B. Dollery, *Market failure, government failure, leadership and public policy* (London : Macmillan Press, 1999) have pointed out that this persistence will depend on the reserves of hope that enable such policy advocates to keep striving toward the realization of their policy goals. This hope would seem to be based both on the beliefs they have about the worth and possibility of these goals and the passion or intensity with which they hold these beliefs. It adds value to, or augments, whatever private interest policy participants have in advocating a particular reform direction and compensates them for the type of *ex ante* uncertainty that must surround any calculation as to whether or not they are "backing the right horse" by expressing their advocacy.

“passion” to advance NZT’s policy “quest” to impose and institutionalize the GF paradigm. This passion can be conceived as the high and observable level of emotional energy that could be reinforced through investment in “interaction rituals” that pass “thresholds of boundedness” since they involve participants who share the same core beliefs⁵⁰. Such expression games or interaction rituals provided new NZT staff with the opportunity to signal to their colleagues that they could be trusted as “one of us” not just through the political correctness of their speech or the persistence of their actions but through the passion they invested in activities that involved “puzzling”. The culture of passion that developed in the NZT therefore functioned as a selection mechanism with people who shared this passion being drawn to work for this institution.

The ideologically “bounded” expression games they played with one another spilled outside its organizational boundaries as the NZT established relationships of trust with key business and political leaders. The senior officials who supplied “transformational leadership” to the NZT must have realized that its reinvention as a source of policy leadership, its framing of a agenda for policy reform, and its insistence that reform proceed according to the principles it had specified *ex ante* would be controversial. It could potentially split the New Zealand policy community and disturb the stable equilibrium of political trust that allowed the “old Treasury” to perform its traditional functions within this community. The NZT clearly needed to operate within a network within which other members could endorse its new role and undertake the political or management tasks required to implement the reforms it advocated.

The key players in the advocacy coalition that formed around the NZT after 1984 were officials in other control agencies such as the Reserve Bank and the State Services Commission, the reformist factions in both Labour and National cabinets (with Roger Douglas, the Labour finance minister from 1984 to 1988, and Ruth Richardson, the National finance minister, from 1990 to 1993, being particularly prominent) and the New Zealand Business Roundtable (NZBR). The NZBR is a self-selected lobby group that includes in its membership (which is by invitation only) the chief executives of some of New Zealand’s largest companies After setting up an

⁵⁰ See R. Collins, 'Emotional Energy as the Common Denominator of Rational Social Action', *Rationality and Society*, 5 (1993), 203-220.

office in Wellington in 1986 under the direction of former NZT official, Roger Kerr, it was able to perform an important residual advocacy function within the reformist network.⁵¹ It also functioned as a “ginger group” as it strove to break new ground in applying the principles laid down by the NZT.

The strong alignment and identification of the NZT with this advocacy coalition meant that opportunities for this control agency to exert the greatest possible leverage over the policy process typically only arose when it enjoyed a mutually empowering relationship of trust with the finance minister and this politician could depend on the support in cabinet of the Prime Minister. This situation of maximum opportunity appears to have prevailed in New Zealand during the first four years of David Lange’s Labour administration, that held office between 1984 and 1990, and during the first two year’s of Jim Bolger’s National Party Government. During both periods the premiers were prepared to give free rein over economic policy to finance ministers who shared the same commitment to advance the “New Zealand experiment” as their NZT advisors. By so doing they could claim credit for the provision by their governments of coherent, decisive leadership at a time of economic crisis⁵².

⁵¹ Easton (*The Commercialisation of New Zealand*) has observed in this regard that:

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

⁵² Both Lange and Bolger rationalized their support of the radical reforms launched by their finance ministers in terms of the post-election crises that confronted their governments. In the case of the Lange government, the pretext for reform was provided by a currency crisis. During the 1984 election campaign the New Zealand dollar was subject to a speculative attack in foreign exchange markets. The Treasury and the Reserve Bank advised the then incumbent Prime Minister, Robert Muldoon, to devalue the currency. He refused, and the attacks on the dollar increased to crisis levels until devaluation was finally undertaken in the first post-election policy announcement of the new Labour government. The next logical steps seemed to be the deregulation of financial markets and the floating of the exchange rate. The window of opportunity was thus opened for the Treasury and Douglas to propose a comprehensive program of liberalization and stabilization as a coherent strategy to deal with New Zealand's underlying structural problems. In the case of the Bolger Government, the pretext for the programme of fiscal austerity and labour deregulation launched at the end of 1990 was provided by a post-election blowout in forecasted budget deficits and the need for the new government to bail-out the partly state-owned Bank of New Zealand. The "crisis hypothesis" of policy reform which holds that public perception of a crisis is needed to create the conditions under which it is politically possible to undertake extensive policy reforms would certainly appear to be relevant to the situation prevailing after the 1984 and 1990 elections in New Zealand. See J. Williamson, *The Political Economy of Policy Reform* (Washington: Institute for International Economics: 1994).

A number of commentators have highlighted the way reform proposals formulated by the NZT could be “crashed through” the policy process during the periods when Douglas and Richardson dominated Cabinet debate over economic policy direction. The strong alignment and identification of the NZT with the reformist advocacy coalition did, however, expose it to a number of threats to the authority it associated with its dominant position in the policy process. Before discussing these in the concluding section of the paper, we need to consider the extent to which the AT underwent a similar cultural transformation at the same time as its New Zealand counterpart.

5. CULTURAL CHANGE AT THE AT DURING THE REFORM EPISODE

The Australian institutional experience was remarkably similar to its New Zealand counterpart, although the impact of the transformation of the AT appears to have been less marked as a consequence of the bicameral structure of the Australian Commonwealth Parliament, the comparatively decentralised nature of economic policy formulation and implementation in a federal state, and the more numerous sources of competing policy advice available to the Cabinet. In common with their colleagues in academia and the private sector, AT economists seem also to have been profoundly influenced by the breakdown of the Keynesian policy in the 1970s. Whitwell observes that “the shift in the department’s philosophy was of course not unique: in very broad terms something parallel occurred within the economics profession, in Australia and abroad”⁵³. Nevertheless, along similar lines to the NZT, AT officials appear to have deliberately pioneered the change in policy paradigms in Australia since “the Treasury took the lead in the 1970s in propagating the neoclassical faith”⁵⁴. Trenchant Secretary of the Treasury and committed advocate of neoclassical economics, John Stone, seems to have played a pivotal role in this process. This appears to have set the stage for the emergence of a new consensus on the applicability of the GF paradigm and allowed AT policy advisers to capture the agenda in policy debates within the Australian Public Service (APS) and beyond.

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

⁵³ Whitwell, *The Treasury Line*, p.263.

⁵⁴ Whitwell, *The Treasury Line*, p.264.

doctrine of public expenditure constraint and deregulatory policies. The scene had been set for a dramatic transformation of federal government policy in Australia. Langmore and Quiggin⁵⁵ have identified a number of institutional factors that influenced the subsequent success of the GF paradigm in policy formulation under the Hawke Labor government. For example, they argue that the dominant positions of the AT and its allies in the Department of Finance and the Department of Prime Minister and Cabinet facilitated the use of several “manipulative devices”. These included the resort to obfuscatory language in the presentation of complex economic arguments, the practice of scheduling expenditure considerations first in the federal budget preparation process, the restricting of discussion of revenue to a small Cabinet sub-committee, the withholding of information from the Cabinet, and deliberately circulating Cabinet submissions late to prevent critical scrutiny. Similarly, the appointment of the inexperienced and ill-educated Paul Keating as Treasurer immediately after the 1983 election made him not only reliant on AT advice for his political survival, but also appears to have made him particularly pliant in adopting the AT policy paradigm. Moreover, Keating’s advocacy and debating skills made him “the best salesman they ever had”⁵⁶

Other scholars have argued that the ascendancy of “economic rationalism” in the AT in particular, and the federal bureaucracy in general, may be ascribed to the intellectual training (in formal economics) and socioeconomic background of the Senior Executive Service (SES). In a controversial book, Michael Pusey presented the results of an opinion survey of 215 SES executives that purported to demonstrate a marked preference for “economic rationalism” or the GF paradigm in policy formulation⁵⁷. If Pusey is correct, then a process of organizational cultural transformation similar to the New Zealand experience must have occurred⁵⁸. Moreover, younger bureaucrats would no doubt have perceived career advantage in investing human capital in the GF paradigm. It with thus seem that the New Zealand experience was indeed replicated in Australia, subject to the institutional caveats

⁵⁵ J. Langmore and J. Quiggin, *Work for All: Full Employment in the Nineties* (Melbourne: Melbourne University Press, 1994).

⁵⁶ Langmore and Quiggin, *Work for All: Full Employment in the Nineties*, p. 235.

⁵⁷ M. Pusey, *Economic Rationalism in Canberra: A Nation-Building State Changes Its Mind* (Sydney: Cambridge University Press, 1991).

⁵⁸ For a critical view of the Pusey thesis, see B. Dollery, and P. Hamburger, 'Winners and Losers in the Australian Public Service in the 1980s: An Empirical Note on the Pusey Thesis', *Australian Journal of Political Science*, 31(1996), 99-110.

concerning the nature of public policy formulation in Australia outlined earlier. The fact that the reform process was less radical and less rapid in Australia appears to support this proposition.

6. CONCLUSION

The main thesis of this paper is that the cultural re-invention undertaken by the NZT during the 1980s exposed it to a greater risk than its Australian counterpart since its more dominant position in its policy community meant that there would be a stronger reaction to its alignment with a particular advocacy coalition. Threats to the authority of the new “aligned” NZT have tended to accumulate since 1988. Firstly it was inevitable that under both Labour and National governments the Cabinet would eventually have to respond to pragmatic concerns that reform was proceeding too far and too fast in one direction⁵⁹. A second threat to NZT authority arose from the strong public reaction to the perception that a technocratic elite was pushing its reform proposals, virtually without modification, through a comparatively small number of veto points at cabinet, caucus and parliamentary level. This was reflected in a resounding referendum vote to change to a mixed member proportional representation (MMP) system in 1993.⁶⁰ This ensured that after 1996 there would be mainly “coalition” or “minority” governments that would have to negotiate policy proposals

⁵⁹ David Lange seems to have become increasingly concerned with the inequitable distributional impact of the reforms and, in 1988, blocked Douglas's proposals for a flat rate of income tax and an acceleration of the privatization program. The ensuing conflict between Lange and Douglas split the Labour cabinet and led to both their resignations. Not coincidentally, the influence of NZT “technocrats” over policy direction “waned somewhat in the later 1980s, in line with that of Labour's technopols” (p.50). It revived again in 1990 when the National Party swept to power and sought to advance the reform process by reducing entitlements to state provision of social services (education, health care and social welfare) and reducing the fiscal deficit. However, the dramatic reduction in National's majority in the 1993 election (despite the “good economic news” associated with a strong non-inflationary economic recovery) prompted the pragmatic Jim Bolger to demote NZT's most powerful “ally” in Cabinet, Ruth Richardson, from her key position as Finance Minister. From 1993 to 1999, the NZT had to work with a Finance Minister, Bill Birch, who was more interested in “consolidating” than “advancing” the New Zealand experiment in neo-liberal reform. Birch did, however, draw on NZT advice as he sought to define a centre-right position, in the context of a National-Labour consensus against reversing the reforms. Mainly he advocated that the budget surpluses that emerged after 1994 be directed toward a phased program of tax cuts once government debt had been reduced to “prudent” levels in relation to GDP. The Fiscal Responsibility Act of 1994 committed future governments to make “transparent” through public announcements the medium term fiscal policy goals they deemed to be “prudent”.

⁶⁰ This occurred despite the fact that the change was not supported by either major party. Moreover, the reformist advocacy coalition (in the guise of the “Campaign for Better Government”) launched an intense and comparatively expensive media campaign to persuade voters to retain the status quo.

through Cabinet and Parliament in a way that made it much more likely that they would be modified.

A third threat arose from the growing concern in government departments outside the control agencies with the negative impact of radical restructuring and reform on “social cohesion” in New Zealand. They were strongly influenced by the work of Robert Putnam who established a link between social capital and social cohesion, on the one hand, and economic performance and governmental effectiveness, on the other⁶¹. To some extent they took their cue from the then Prime Minister, Jim Bolger. Over the 1993-6 period, he was publicly asserting the need to “bring back the balance” and predicted that future policy development would place even greater emphasis on the role of communities in “building the social capital of the nation”⁶².

Finally, the New Zealand Labour Party (NZLP) that remained in opposition over the 1990-9 period appears to have been strongly influenced by the popularity of the “Third Way” approach followed by the Clinton government in the US and the Blair government in the UK. This could be seen as a reaction to the “strong” style of policy leadership that Little argues was “all the rage” during the 1980s⁶³. A climate of anxiety appears to have developed under governments seeking to exercise strong leadership. This was generated by the belief that these governments would both allow producers and workers to be exposed to the harsh realities of a dynamic and volatile global environment without providing them with adequate assistance to adjust to its exigencies while, at the same time, seeking to exclude, marginalize and overcome any source of resistance to their reform initiatives. This climate ensured that there was considerable receptiveness to the more “appreciative” leadership style the Third Way governments sought to exercise by building on (and extending) the historic achievements of their “strong” predecessors while, at the same time, focusing on the facilitative role of the state to help the victims of change adjust to the “new realities”.

The Third Way did not, however, just represent a change in style - nothing more than a watered down version of the neo-liberal policies pursued by Thatcher and Reagan. Giddens has argued that it also needed to be taken seriously as a programme

⁶¹ R. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993).

⁶² R. Blakely, and D. Suggate, 'Public policy development' in D. Robinson, (Ed), *Social Capital and Policy Development* (Wellington: Institute of Policy Studies: 1997) p.83.

⁶³ G. Little, *Strong Leadership* (Oxford University Press, Melbourne, 1998).

in the making⁶⁴. A number of aspects of this programme marked some shift in policy direction. Firstly, there seems to have been a more flexible “New Keynesian” approach to macroeconomic policymaking that sought to use monetary policy to reduce instability in GDP and unemployment without destroying the credibility of inflation targets⁶⁵ while, at same time, allowing a more flexible use of budget surpluses through fiscal policy. Secondly, Third Way governments sought to differentiate themselves from their predecessors in terms of their supply-side agenda. It should be pointed out, though, that the main item on this agenda - the acceleration in the accumulation of the human and social capital stocks required by the “knowledge economy”⁶⁶ - was made achievable, within conservative fiscal policy settings, by the budget surpluses generated over long periods of positive growth and spending restraint by their predecessors. However, unlike their predecessors, Third Way governments advocate “reinventing government” (Osborne and Gaebler, 1992) rather than “rolling back the state”. This means that they typically seek to broaden the focus of their public management reforms from a drive to cut the costs of delivering tightly specified outputs to an approach that attempts to make public agencies, responsible, first of all, for the outcomes of “citizen-centered services”.

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

He scorned his department by refusing to have a Treasury official stationed in his office, an unheard of departure from tradition. Early meetings between Cullen and Treasury were punctuated by eye-rolling and sighing from the minister⁶⁷.

Meanwhile, the potential for a significant shift in the “locus of authority” has been brewing within the Department of Social Policy. James reports that the minister of this department, Steven Maharey, is currently seeking to transform it into a

⁶⁴ A. Giddens, *The Third Way: The Renewal of Social Democracy* (Cambridge: Polity Press, 1998).

⁶⁵ See B. Greenwald, B. and J. Stiglitz, ‘New and Old Keynesians’, *Journal of Economic Perspectives*, (1993) 23-44.

⁶⁶ See T. Blair and G. Schroeder, *The Third Way/Die Neue Mitte* (London, British Labour Party, 1999).

⁶⁷ Laugesen, and Maling, 'Treasury Island',

“superministry”, “the social equivalent of the Treasury”, “testing all policy against social criteria the way the Treasury does against fiscal and economic criteria”. According to this commentator, the formation of strategic social policy group within this department in 2000 constituted the first step in the development of a “policy analysis and ideas factory”. This would bring together analysts who currently work in separate departments formulating health, education, housing, justice, social security and social services policy so that a framework can be established to which all these agencies would eventually work⁶⁸. In view of the emergence of what would be a significant institutional competitor, Laugeson and Maling (2001) could, without journalistic exaggeration, observe that: “Several years after the more-market project hit a brick wall in New Zealand, Treasury is at a crossroads. It can either change its thinking, and once more become a powerhouse for national economic strategy. Or it can remain pure but sidelined, biding its time in the hope the political climate will change again”⁶⁹.

Will another “re-invention” occur in the face of these cumulative threats to the NZT’s authority? There are some indications that it is occurring already. The current secretary, Alan Bollard, is an academic “outsider” who has set himself the goal of transforming the NZT’s culture during his five year term that commenced in 1998. He has tried to do this in a number of ways. According to Laugesen and Maling “he is consciously hiring older staff, saying that younger staff don’t stay as long and sometimes don’t have the personal skills that are needed”. He is placing his staff under pressure to improve their “relationship skills” saying: “It does mean reinforcing what other departments are doing, helping them take the lead. It means working with them a lot more”. He is also trying to encourage them to “think more broadly” and is deliberately hiring more experienced university lecturers “to bring new ideas into Treasury”. Perhaps most significantly he has tried to align the agenda of his officials with that of the new “Third Way” government. The NZT’s briefing paper to the incoming government in 1999 made considerable reference to the need to enhance social cohesion by building social capital. Moreover, while its just released position paper entitled “Towards an Inclusive Economy”⁷⁰ offers a neo-liberal perspective on

⁶⁸ James, C. (2001). 'Forget Rankin, Superministry is the Real Story', *New Zealand Herald*, Auckland.

⁶⁹ Laugesen, and Maling, 'Treasury Island'

⁷⁰ New Zealand Treasury, *Towards an Inclusive Economy* (Treasury Working Paper 01/15, Wellington, 2001).

the government's attempt to formulate, for the first time in fifteen years, a regional development strategy, advocating relocation assistance to assist job-seekers in moving out of deprived regions, it also acknowledges a "need to deal with the immediate concern for the social protection of today's vulnerable people"

Although the AT went through similar cultural changes to the NZT in the 1980s in response to the shift from a MF to a GF policy paradigm, it has not come under the same pressure to reinvent itself in the 1990s in response to what it is a reaction to a particular leadership style rather than a paradigmatic (as compared to incremental) shift in policy direction. Perhaps this is a reflection of the more appreciative (Third Way) style of policy leadership its Labour governments exercised during the reformist episode. Perhaps, too, it is a reflection of the fact that the institutional balances to its influence within the Australian policy process mean that its alignment with a particular advocacy coalition is less threatening to other policy actors. Could it be that the New Zealand policy process is undergoing a transition to a more contestable system of policy advice within which an "aligned" NZT can function without periodic challenges to its authority?