

# Public Administration and Public Management

The principal–agent perspective

Jan-Erik Lane

First published 2005 by Routledge  
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

Simultaneously published in the USA and Canada  
by Routledge  
270 Madison Avenue, New York, NY 10016

*Routledge is an imprint of the Taylor & Francis Group*

© 2005 Jan-Erik Laue

Typeset in Baskerville by Keyword Group Ltd  
Printed and bound in Great Britain by MPG Books Ltd, Bodmin

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

*British Library Cataloguing in Publication Data*

A catalogue record for this book is available from the British Library

*Library of Congress Cataloguing in Publication Data*

A catalog record for this book has been requested

ISBN10: 0-415-37015-9 hbk

ISBN10: 0-415-37016-7 pbk

ISBN13: 9-78-0-415-37015-8 (hbk)

ISBN13: 9-78-0-415-37016-5 (pbk)

# Contents

<i>List of Figures</i>	ix
<i>List of Tables</i>	x
<i>Preface</i>	xi
<b>Introduction: the public and the private sectors</b>	<b>1</b>
<i>Need for public administration or public management</i>	4
<i>New Public Management: the general framework</i>	5
<i>Public management: merit and accountability</i>	13
<i>Public administration and public policy: a contracting perspective</i>	14
<i>Citizen's charters</i>	16
<i>Osborne's trilogy: a critique of the management philosophy of David Osborne</i>	18
<i>Conclusion</i>	27
<i>Appendix</i>	27
<b>1 The principal-agent framework and the public sector</b>	<b>29</b>
<i>Introduction</i>	29
<i>Why is the principal-agent framework popular?</i>	30
<i>Principals and agents: contracting as the essence of interaction</i>	31
<i>Incentives: how is egoism and social value recognised?</i>	33
<i>Principal-agent games</i>	34
<i>The principal-agent approach and the public sector</i>	38
<i>Management, public organisation and the principal-agent model</i>	41
<i>Public management and the politics/administration separation</i>	44
<i>Conclusion</i>	46

i Contents

**Public principals and their agents 48**

*Introduction 48*  
*From public finance to public management 49*  
*The public principal 51*  
*Social priorities as incentives 53*  
*The fundamental agency problem in the public sector 57*  
*Public sector agency: hidden action 58*  
*Public sector agency: hidden knowledge 60*  
*The two main solutions to the agency problems 61*  
*Budgeting: the principal–agent perspective 63*  
*Conclusion 75*

**The economic reasons for government 77**

*Introduction 77*  
*Imperium and patrimonium 78*  
*Common jewels are not merely regalia 80*  
*Eminent domain 81*  
*Public goods and merit goods 82*  
*Public necessity 84*  
*Government as employees, money and law 85*  
*Transaction costs and coordination 86*  
*The enforcement mechanism and groups 87*  
*Contractarian schools 89*  
*Contracting in the public sector 93*  
*The two kinds of transaction costs 93*  
*The state and transaction costs 95*  
*Transaction costs and fairness 98*  
*Conclusion 99*

**Public organisation, incentives and rationality in government 100**

*Introduction 100*  
*Rational public administration 100*  
*Rationality in policy-making: will transitivity prevail? 102*  
*Whose rationality in policy implementation? 104*  
*Micro rationality versus macro rationality 106*  
*Cooperation and coordination failures 107*  
*The state: arena and organisation 113*  
*Politics as the arena of policy-making 114*  
*Public organisation as the implementation of policy 114*  
*Political organisation: three basic types 115*

<i>The basic logic of public organisation</i>	118
<i>Macro and micro rationality and the non-profit organisations</i>	122
<i>Conclusion</i>	123

## **5 The essence of public administration: legality and rule of law 125**

<i>Introduction</i>	125
<i>A thin legal concept of legal-rational authority</i>	126
<i>What is legitimacy?</i>	127
<i>Legality</i>	128
<i>Rights</i>	130
<i>Separation of powers</i>	131
<i>Publicity and redress</i>	132
<i>Legal review</i>	133
<i>The Hayek argument about law and rule of law</i>	135
<i>Democracy and rule of law</i>	139
<i>Growing demand for rule of law: judicialisation</i>	141
<i>Public administration and reregulation: a principal-agent perspective</i>	142
<i>Conclusion</i>	145
<i>Appendix</i>	147

## **6 Public policy criteria: the Cambridge and Chicago positions 148**

<i>Introduction</i>	148
<i>The Chicago revolution: the ends or means of policy?</i>	149
<i>The world according to the Chicago gospel: the key hypotheses</i>	150
<i>Law and markets: what is the role of the state?</i>	154
<i>Chicago School implications</i>	159
<i>The world according to the Cambridge gospel: the relevance of social policy</i>	163
<i>Conclusion</i>	166
<i>Note</i>	167
<i>Appendix: Social spending in OECD countries</i>	167

## **7 Public teams are different from private teams 171**

<i>Introduction</i>	171
<i>Macro view of public organisation</i>	172
<i>Country-specific models of public organisation</i>	174
<i>Public teams: people and rules</i>	176
<i>Micro perspective on public organisation</i>	177
<i>Limits of new managerialism</i>	184
<i>Public organisation and public teams</i>	186
<i>Conclusion</i>	188

<b>8 Public firms</b>	190
<i>Introduction</i>	190
<i>The contradictions inherent in the public enterprise</i>	191
<i>Public enterprises and the economy</i>	192
<i>Behavioural consequences of the new system</i>	198
<i>Overall assessment of 'like to like'</i>	206
<i>Conclusion</i>	209
<b>9 Public insurance</b>	212
<i>Introduction</i>	212
<i>The elements of pension systems</i>	213
<i>The organisation of public insurance</i>	214
<i>Challenges: adequacy, coverage and sustainability</i>	217
<i>The economic dependency ratio</i>	220
<i>The future: avoiding deficits or reneging?</i>	223
<i>From welfare to workfare: the moral hazard perspective</i>	223
<i>Social security and social policy</i>	225
<i>Conclusion</i>	226
<b>10 What is public management policy?</b>	228
<i>Introduction</i>	228
<i>NPM: country-specific models or experiments</i>	229
<i>Guiding principles of public management policy</i>	233
<i>Towards a post-modern public organisation</i>	235
<i>Public management reform: what is the drive?</i>	235
<i>The public management function</i>	239
<i>Core public management functions</i>	243
<i>Does public management matter?</i>	245
<i>Conclusion</i>	248
<b>Conclusion: contracting in the public sector</b>	250
<i>Introduction</i>	250
<i>The state and transaction costs</i>	251
<i>Reasonable and unreasonable reform attempts</i>	256
<i>Conclusion</i>	258
<b>Bibliography</b>	263
<b>Index</b>	281