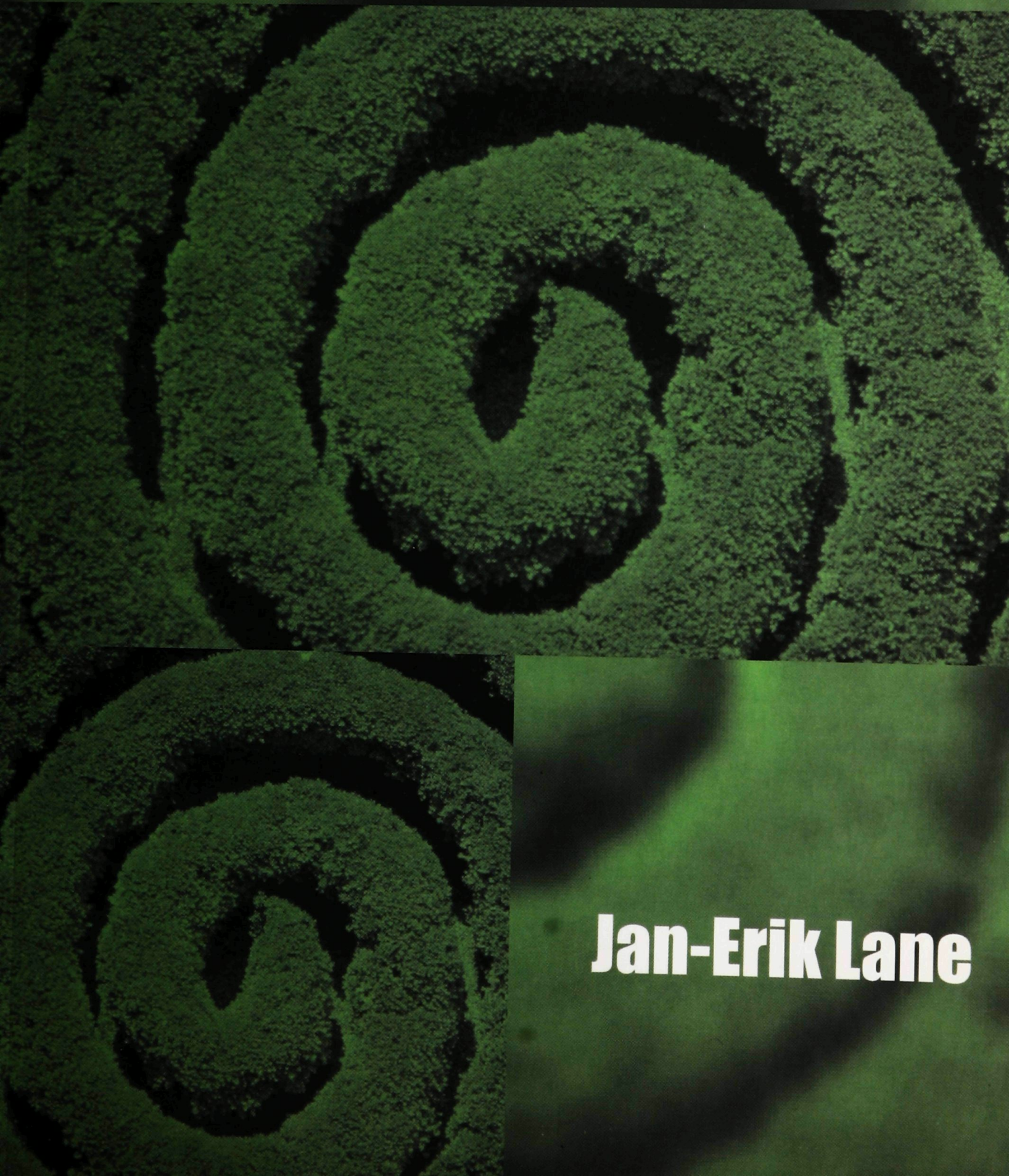


Public Administration and Public Management

The principal-agent perspective



Jan-Erik Lane

Public Administration and Public Management

Government in any society delivers a large number of services and goods to its population. To get the job done, government needs public management in order to steer its resources – employees, money and laws – into policy outputs and outcomes. In a well-ordered society the teams who work for the state deliver under a rule of law framework – public administration.

Public Administration and Public Management provides a new perspective on the public sector by offering a concise and comprehensive analysis of what it is and how it operates. This book includes such issues as:

- the principal–agent framework and the public sector
- public principals and their agents
- the economic reasons of government
- public organisation, incentives and rationality in government
- the essence of public administration: legality and the rule of law
- public policy criteria: the Cambridge and Chicago positions
- public teams and private teams
- public firms
- public insurance
- public management policy

This book provides essential reading for those with professional and research interests in public administration and public management.

Jan-Erik Lane is professor of political science at the University of Geneva and has taught courses on government in several countries.

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 Lane

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 Cataloging 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
Introduction: the public and the private sectors	1
<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
1 The principal-agent framework and the public sector	29
<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

2	Public principals and their agents	48
	<i>Introduction</i>	48
	<i>From public finance to public management</i>	49
	<i>The public principal</i>	51
	<i>Social priorities as incentives</i>	53
	<i>The fundamental agency problem in the public sector</i>	57
	<i>Public sector agency: hidden action</i>	58
	<i>Public sector agency: hidden knowledge</i>	60
	<i>The two main solutions to the agency problems</i>	61
	<i>Budgeting: the principal–agent perspective</i>	63
	<i>Conclusion</i>	75
3	The economic reasons for government	77
	<i>Introduction</i>	77
	<i>Imperium and patrimonium</i>	78
	<i>Crown jewels are not merely regalia</i>	80
	<i>Eminent domain</i>	81
	<i>Public goods and merit goods</i>	82
	<i>Public necessity</i>	84
	<i>Government as employees, money and law</i>	85
	<i>Transaction costs and coordination</i>	86
	<i>The enforcement mechanism and groups</i>	87
	<i>Contractarian schools</i>	89
	<i>Contracting in the public sector</i>	93
	<i>The two kinds of transaction costs</i>	93
	<i>The state and transaction costs</i>	95
	<i>Transaction costs and fairness</i>	98
	<i>Conclusion</i>	99
4	Public organisation, incentives and rationality in government	100
	<i>Introduction</i>	100
	<i>Rational public administration</i>	100
	<i>Rationality in policy-making: will transitivity prevail?</i>	102
	<i>Whose rationality in policy implementation?</i>	104
	<i>Micro rationality versus macro rationality</i>	106
	<i>Cooperation and coordination failures</i>	107
	<i>The state: arena and organisation</i>	113
	<i>Politics as the arena of policy-making</i>	114
	<i>Public organisation as the implementation of policy</i>	114
	<i>Political organisation: three basic types</i>	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

8 Public firms	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
9 Public insurance	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
10 What is public management policy?	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
Conclusion: contracting in the public sector	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
Bibliography	263
Index	281

List of Figures

I.1	Costs, effort and benefits	15
I.2	Wage, effort and output	16
1.1	Principal-agent interaction: the general picture	41
2.1	Spending on social and private objectives	54
2.2	Principal-agent contracting	55
2.3	Principal-agent interaction I	73
2.4	Principal-agent interaction II	74
2.5	Principal-agent interaction III	74
2.6	Transaction costs	75
5.1	Principal-agent interaction: the agency regulatory problem	145
6.1	Social policy and economic growth	165
7.1	In-house and out-of-house production	180
7.2	Monitoring: costs and value	181
8.1	Public firms: strategies and outcomes	199
8.2	Looting in a principal-agent perspective	210
C.1	Principal-agent interaction I	260
C.2	Principal-agent interaction II	260
C.3	Principal-agent interaction III	261

List of Tables

I.1	Merit and accountability	13
I.2	General government total outlays as percentage of nominal GDP 1986–2005	27
2.1	Public sector reform: privatisation and outsourcing	50
2.2	The public sector: motives and output	54
2.3	Effort and output	65
4.1	Rationality in public administration	101
4.2	The PD game	108
4.3	The chicken game	109
4.4	The battle of the sexes	110
4.5	Assurance game	111
4.6	The Samaritan's problem	111
4.7	The civic duty game	112
5.1	The trust game	144
5.2	Hohfeld's fundamental legal conceptions	147
6.1	Categories of social spending as percentage of gross domestic product (GDP) 1995	167
6.2	Education expenditures as percentage of GDP 1995	169
6.3	Health care spending as percentage of GDP 1995	170
10.1	The bureaucratic and post-bureaucratic organisation	236
10.2	Public management: the black box	246