

# NEW PUBLIC MANAGEMENT AND CORRUPTION: IPMN DIALOGUE AND ANALYSIS

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## ABSTRACT

*The article explores potential interrelationships between New Public Management reforms in the public sector and corrupt behavior of public servants, politicians and/or private providers of public services. It reflects on the impact of different reform strategies on corruption, analyzes possible unintended consequences of reform, and explores motivation and opportunity as possible stimuli of corruptive behavior. Empirical evidence to deduce clear findings about the relationship is absent. In fact, there is no evidence to suggest that NPM fosters corruption any more than does traditional public administration. However, the article reviews hypotheses that suggest NPM may foster the opportunity for corruption. The analysis is assisted by comments on the topic made by IPMN members in a list server dialogue that took place in late 2002.*

## INTRODUCTION

Does New Public Management foster corruption? This question focuses on the relationship between administrative reform and the potential misuse of public power for private gains. The debate arising from this question has been discussed controversially in recent years and including within the International Public Management Network. This article aims at raising some systematic arguments that may help to overcome the gap between theoretical assumptions and missing empirical evidence. So far it can be stated that there are a lot of general assumptions among scholars that New Public Management (NPM) may increase the risk of corrupt behavior by public servants and others. However, indications are often vague and unspecific. Empirical investigations into this subject are missing almost completely. An increasing awareness of corruption dangers may be observed in countries including New Zealand, the United Kingdom, the United States, Canada and Australia -- and also in Denmark, the Netherlands and Germany.

Regarding the impact of NPM on corrupt behavior of civil servants there is an obvious dissent between scholars of administrative science. On the one hand, it is argued that competition, purchaser-provider split, professional management, quality or performance measurement, and transparency can help to prevent corruption (Osborne and Gaebler 1997, Osborne and Plastrik 1997). On the other hand, criticism arises about the way NPM has been conceptualized and implemented by governments (Frederickson 1999; Doig 1995, 1997, 1998; Löffler 2000; Painter 2000). The main criticism is that NPM focuses solely on the economy, efficiency and effectiveness of administrative systems and thereby neglects variables including probity, equality, process-orientation and accountability (Gregory 2002; Savoie 1995). During the last year research worldwide has focused on analyzing and evaluating best practice examples of NPM. We conclude

from this research that NPM reform can be both, "...enterprising and innovative but also an area of risk, misunderstanding and conflict of purpose" (Doig 1998: 147).

The debate and this article are about how to approach analytically the issue of bad practice in public management. It is not the aim to deliver a one-sided or prejudiced account of the influence of NPM on corruption but to draw an unbiased picture of some central issues in the current debate and to raise questions that remain open for debate. To systematically study bad practice examples we identify three issues that are central to the understanding of NPM and corruption:

- NPM is an "umbrella" term covering numerous reform strategies. Therefore, it is necessary to differentiate between the theoretical model of NPM and different reform strategies chosen by governments.
- Corruption is not intentionally induced by administrative reform but it is also not an accidental event. If it occurs may be the result of organizational failure and "unintended consequences" (Savoie 1998; Hood 2000: 18) of public management reform that provide opportunity for corrupt behavior.

Additionally, in our view, to focus on administrative corruption in the NPM context only is too narrow. There is evidence that corruption can be found within any enabling systems, including the behavior of political and administrative actors as purchasers and the different public, private and non-profit organizations as providers of public services. Cases of corruption show a lack of adequate adapting of the corporate governance structure on both sides -- purchasers and providers.

What follows is the dialogue on this issue that took place on the IPMN list server beginning in November 2002, in the rough order of the contributions, only slightly edited. The dialogue was stimulated by the first message from the authors. Following the dialogue we provide our assessment of evidence and opinion on the topic of corruption and NPM.

### **THE IPMN DIALOGUE**

1. We are conducting a research project at the University of Potsdam about the relationship between New Public Management reform in OECD countries and its impact on corrupt behavior of civil servants. We are looking for case study material and indicators for the assumption that NPM oriented reform, especially the implementation of a purchaser-provider split, contracting-out and competition can lead to a situation that favors corrupt behavior of actors in the public sector. There could be evidence that NPM elements contribute to:

- A decline of an "ethics infrastructure", and of alienation and insecurity of public servants,
- Intensified "market for contracts" and rent-seeking behavior of market participants, and
- The possibility of undermining supervision and control of the administration due to the decentralized and fragmented structure of purchaser-provider models.

Is there any empirical evidence in countries, municipalities or other public sector organizations you know? Or is it the other way round (decreasing dangers of corruptive practices because of more transparency and clearer accountability)? Anyhow, we are very grateful for helpful comments and would appreciate information about well-documented cases of corruption, case studies or research projects referring to this subject.

Christoph Reichard, Universität Potsdam, Public Management Program

2. Christoph: Just a couple of bits of hard evidence, but not about corruption per se. In 1994 I conducted a survey of 4,000 UK public sector managers (published as 'Reinventing Public Management?' Institute of Management, London).

One of the questions in the survey was about to what degree recent changes (NPM style reforms) had reduced political interference in operational management decisions. To our surprise rather than diminish political interference the respondents said it had markedly increased.

Further exploration established this was to do with contradictory effects of public management reforms. Whilst 'performance contracting' and 'autonomisation' was aimed at allowing 'managers to manage' a perverse outcome was that the creation of smaller units, unshielded by a large bureaucracy, created more possibilities for local politicians to put pressure on isolated managers for 'favors' (usually for constituents rather than themselves).

Whilst this wasn't corruption as such, it shows how disturbing current accountability and ethics arrangements, through any type of reform, can have unexpected consequences.

On a wider front the UK's Public Accounts Committee published a report the same year (1994) called "The Proper Conduct of Public Business" which identified 21 cases (if I remember rightly) where changes to existing controls had led to either major mistakes or actions bordering on corruption.

Colin Talbot, University of Glamorgan

3. Christoph: The piece of your story I have been working on the US is the contracting portion. It is very difficult to document the extent of ethics violations however. At the local level, where I am most familiar with the situation, I would say it is not uncommon for contracts to be used as patronage in large politicized cities--the Chicago Tribune has run several series over the last few years on contracting as the new patronage, examining in detail state level contracts and later contracts in the city of Chicago. One for wrought iron fences throughout the city became a kind of icon these kinds of contracts, something the city didn't need, but purchased from a friend of the mayor.

A second kind of ethics lapse occurs when the contracts are awarded on bases other than efficiency or cost, but estimated (never actual) cost savings are used as an excuse to

dissolve a department with a public sector labor force and contract instead. In one major example that came to my attention, the decision to contract out preceded the cost study that was used to justify it. The outcome of the study was a foregone conclusion. This kind of process is corrupting at several levels, though enrichment of the actors is not necessarily one of them.

I tried to find out how much collusion there was among contractors to rig the bids, but found that I could not get a hold of this topic in any way, but instead, found that lowballing with the resulting scope creep, cost creep, and quality decreases were fairly common at the local level.

I am sorry I can't give you more precise numbers, but these are not matters that lend themselves to statistical survey, they have to be tracked case by case, and then there is no way to know how common the tracked cases are. I am still working on this, however. So, more to come in the future.

Great topic, keep at it.

Irene S. Rubin, Public Administration Division, Northern Illinois University

4. I find the direction this discussion is beginning to take very unfortunate. Corruption in contracting is far more associated with the old public management -- machine-run cities, non-democratic societies, etc. -- than with the new public management. It is no coincidence that the countries where the new public management has come the furthest are, as a whole, the least-corrupt political systems in the world. Somewhat like the situation with Abraham Maslow's hierarchy of needs, these countries, having the basic foundations of the system under pretty good control, can start focusing more on performance and results.

Focusing a system on results can create a danger of "fudging the numbers" (which is not the same as corruption, though a different problem). But genuine focus on results is an excellent incentive against corruption, because making decisions based on corruption almost always means poorer performance (somebody is doing work based on something other than merit). The fight against corruption requires more results-orientation, not less.

Steve Kelman, Professor of Public Management, Harvard University

5. I thought my comments might stir things up. Never one to avoid an intellectual controversy, let me make the following follow up: In my experience with contracting at the local level in the US, with the exception of water contracting where environmental protection standards provide a sort of outcome measure and continuous performance measurement, there are enormous incentives NOT to evaluate the consequences of contracting after the fact. Once a contract has been let, public officials need to claim that it was successful, and so, unless performance is utterly egregiously bad and publicly visible, they defend the contract, renegotiating it, expanding its scope, and the like.

While more of an outcome focus would be welcome here, I don't see much of it. Some officials use contracting to keep city employees "honest" that is, to keep in house costs down and to leverage efficiency; some use it to reduce costs; others for a variety of other purposes, including gaining technical skills the city cannot afford to hire in house. Kelman may well be correct that contracting doesn't make an honest government corrupt, but neither does it make a corrupt one honest, or necessarily well managed.

Beyond that, however, the bidding process which is precisely the vehicle that allows the public sector to benefit from private sector competition, encourages business to lowball, in order to win the bid and get a foot in the door, those are quotes from contractors themselves, with the resulting scope creep, cost creep, and or service decreases. To the extent that this is inherent in competitive practices, inherent in market procedures, and it results in deception which is later rationalized as success in order to make the decision makers look good, there is something inherently corrupting about this process.

This tendency is something we need to pay attention to as we evaluate the effectiveness of these reforms.

Irene S. Rubin

6. This is interesting, so here's my 2 cents.... My experience with contracting is that the tendency toward corruption is about the same as in all human activities. Growing up in Brooklyn, my Russian Grandfather told the policeman next door-- "Ralphie-- try to get a job in traffic-- there's good money in traffic"...(Officer Ralph never took the bait.) I have seen plenty of corruption in and out of government, but far more often I've observed plenty of honest, ethical behavior. In NYC homeless services, foster care, and hundreds of other social welfare functions are contracted out, performance is measured, and little corruption takes place (measured as a percentage of the total volume of business). There are numerous contractual devices to prevent low-balling, and sophisticated public and private managers have learned them. As more and more organizations become networked to each other in productive interaction throughout the world, the norm is productive, honest relationships. If contractors don't deliver, they don't stay in business for the long run. When contractors don't deliver, they usually (not always) lose the rabid--sometimes the contract gets terminated. We need to teach our students how to become more effective contract managers. They need to learn that contracting is not a turnkey operation, but simply an extension of management relationships to external parties. We need to teach them how to manage in this new environment. The "make-or-buy" decision is a fundamental choice of all managers as they decide on their organizations strategy and areas of distinctive competence. Contracting is only increasing as transportation and communication technology allows us to work together at great distance and focus our work on what we do well. Most contracted relationships work well, and are no more prone to corruption than any other human enterprises. We need to study what works and what doesn't work in contract management.

Steven Cohen

7. I agree with Steve Kelman in his statement, "Corruption in contracting is far more associated with the old public management." We have no evidence to suggest that NPM has increased corruption in contracting in the US at the federal or state and local levels of government. In fact, in the national defense sector corruption and just plain poor management of the contracting process has been reduced by a significant amount as a result of NPM-oriented changes. Reform in this area continues as we engage in this dialogue. State and local government contracting expertise in the US has improved as a result of having to do a better job in contracting for services. However, much improvement still is needed. In other nations it is evident that NPM reform has attempted, with some success, to reduce corrupt practices, e.g., Thailand and elsewhere in SE Asia, and in Brazil and elsewhere in Latin America. The Thai example is excellent. I would like some of our Thai members of IPMN to comment on NPM reform initiatives in their nation.

Larry Jones, Graduate School of Business and Public Policy, Naval Postgraduate School

8. Public management, and that we have no evidence that NPM has increased corruption in contracting in the US, has several flaws in it that need to be addressed.

First, the old public management was not contract oriented, it was oriented to patronage in hiring, so that municipal employees were crucial to political machines. Newer public management emphasizes contracting out. My first argument is that contracting out doesn't eliminate or weaken the patronage orientation where it exists.

Second, while new public management certainly doesn't advocate corruption in any form, it does encourage contracting with the private sector, especially perhaps where there is competition, either between the public and private sectors or within the private sector or both. To the extent that the new public management is successful in carrying out its reforms, there is new and additional contracting, and that is precisely where the rub is, that those who are not particularly experienced with it contract for the first time, seeking cost savings, avoidance of union negotiations, regulatory responsibilities, all kinds of good things. Contractors report that they spend much time and money wining and dining aldermen, taking them golfing, winning over the mayor, before the mayor or staff present the contracting options to the councils. I am not saying this happens in every case, or that well managed cities that contract don't have arms length agreements, only that the increase in contracting means that contractors are eager to get in their foot in the door, and offer the equivalent of loss leaders, lowballing their costs, and then later have to raise prices and or cut corners on service delivery, and that this is common enough to warrant not only study but concern.

The ideas of NPM may be pure, but they are implemented in a real and impure world. "Having no evidence" as Larry argues, is not the same thing as "not increasing corruptions" or the opportunity for corruption. If you increase the opportunity for corruption, not everyone will take advantage of the opportunity, but some will, and that will be an increase.

So part of my argument is NPM increases the opportunities for corruption in contracting, not only because it increases the amount of contracting, but also because in

the US that increase in contracting has not been accompanied (generally) with increased accountability and look back evaluation. Only when contracting explodes with dramatic effect, as in the software contracts in California, does it come to public attention.

A second part of the issue is that cities that are most likely to turn to contracting out services that they already provide in house are those whose costs are very high, that have a history of prior poor management; these cities are the ones least likely to have the capacity to manage the contract, estimate the costs realistically, or avoid the appeals of low ball contracts. With small contracts, cities can get advice from neighbors as to which contractors are responsible, but on the bigger ones, there is generally either not enough good information out there, or bid procedures do not allow that information to be used in the selection process, or the selection proceeds on some other grounds than past performance problems.

Cities that have the capacity to oversee the contracts well and know the costs, have lower costs themselves, and often don't contract out because they realize there are no intrinsic savings to be gained. These cities don't make it in to social scientists' studies, but there are routine decisions made all the time not to contract out. These are the cities that could avoid lowballing and scope creep because they have the managerial know-how, but they are less likely to be the ones responding to the pressure to contract out.

So I conclude, that as implemented, not as idealized, there is a tendency for contracting out, as advocated in the NPM, to increase the amount of corruption. Somehow the expertise required for contracting has to be conveyed to those most likely to use it. I am not sanguine about the possibility of increasing accountability for contracting after the fact however; officials have too much invested in making their decisions look as if they were the right ones.

Irene S. Rubin

9. Christoph: Isn't the term NPM too loose - and in some contexts too loaded - for it to be a good basis for you hypothesis? (in the European context NPM as a term also touches an anti-Anglo vein that seems like an unhelpful distraction)

It seems to me it runs a danger of reinforcing up a false dichotomy between traditional public admin (how uniform an idea is that anyway?) and everything, which is not traditional public admin. Luddites and faddists!

It defies common sense that public admin would not be changing and evolving as other institutions in society evolves and changes. Public administration has features which are importantly unique- but there are many areas of public activity which one would expect what has emerged generally in management (e.g. performance management, structural diversification, activity-based accounting, contracting in, use of non-permanent staff) would also have application in the public sector. These are responses to changes in society.

And in any case corruption can go up and down within a traditional public admin system depending on the quality of compliance and the changes in risks and capacities in the wider environment.

My concern is just about the distracting use of the NPM umbrella - we in OECD would be very interested to see good research on a particular public management trend-say large scale contracting out- or big public private partnerships- from the point of view of whether they tend to undermine good public governance. I suspect one would have to look at this in a country specific context. Because of the importance of context in public management, one could not just assume from the outset that good or bad experience in one country will tell us a lot about how it will play in a different country.

Alex Matheson, OECD, Paris

10. I agree with Jones, Kelman, Matheson and Cohen. There is no evidence that could sustain a hypothesis [that NPM increases corruption].

In very traditional fora, I feel intent to declare "the end of NPM". Generally, in these fora, "experts" say that NPM is a market-oriented approach that put in risk the ethical patrimony of public servants. This kind of thought comes from bureaucrats in developing and developed countries; in the first case, they act as a "vengeance", in order to affirm the superiority of their vision about the public sector, against the reformers that acted in the recent past years. In the second case, the protagonists are, generally, professors and high bureaucrats that intend to "sell" the webwerian model to "the less civilized public administrations".

In either case it is arrogant to state the relationship exists. The expansion of the concept of good government has been accepted, including the worth of much of what we call NPM. It is time I think to now more fully utilize the value and work of what has been implemented in the 1980s and 1990s so that from the view of society (who watch the propriety of initiatives in the public sector -- and also look for high performance) those who work in government, whose efforts are to achieve results, know what they are doing in a way that increases respect for their work in public opinion. Public opinion will not support governments the moment it is perceived that governments have not become more efficient and effective.

Regina Pacheco, ENAP, Brazil

11. At first I thought the request that began this discussion was asking for reports on hard data. I see now that I am one of many who have no hard information to share, but plenty of theory. Beginning with (governmental) corruption, I ask, very generally, why is there corruption? I imagine the answer is opportunities and motivation.

How might NPM change corruption? Frankly, on the motivation side it has very limited power. NPM can try to (1) reform government officials and employees who are already corrupt, (2) keep honest those who might otherwise become corrupt and (3) discourage non-governmental employees who are likely corrupt from joining government. I see



nothing in NPM that is aimed at number 1, so let's just set it aside. To the degree that NPM decreases the total number of government employees, it does number 3 by accident, but (a) if it transfers governmental power to quasi-private organizations, there is no gain; and (b) in any case that would have no effect on the proportion of governmental employees who are corrupt. NPM's uplifting revivalist language or the message about what government is all about might attract a better sort of employee; however, this has happened before, during the 1930s-40s and during the 1960s (in the United States), for example. I am unaware of any evidence that these earlier programs had any perceptible impact on corruption. Nor am I aware that NPM does anything in particular to keep corrupt people from joining government. [There is the possibility that by reducing the regulation burden on being a government employee (see the next paragraph and (a) in the next to last paragraph), the premium charged by new employees (in the form of refusing a government job) may have some bias towards getting a better mix of employees; however, this is very speculative.]

This leaves number 2, keeping honest government employees honest. NPM might provide for some gains here. In particular, a small proportion of government employees may become corrupt in part because they become frustrated with their inability to do anything in the highly regulated environment of government. If NPM eliminates barriers to acting as a morally responsible agent, some people might go ahead and continue being morally responsible. I would be interested in knowing whether that happens. I expect, however, that we are talking about a very small amount of relatively petty corruption.

If, as I hypothesize, NPM has little influence on the motivation for corruption, perhaps it has more influence on the opportunity for corruption. On the opportunity side, governmental corruption involves getting goods. Getting goods includes (a) taking government's money (mostly money, although sometimes it is some other good that is desired for its monetary value) or (b) using government's assets (often power) to take someone else's goods (here the connection to money might be a little weaker).

Let's address (b) first, using government's assets (usually, power) to take someone else's goods. An example is use of insider knowledge to acquire property cheap and resell it to the government at great profit. The book *Plunkett of Tammany Hall* reveals this "honest graft" to be a major form of late 19th century corruption. One of the great advances of the 20th century (the old public administration) was to define this use of insider knowledge as illegal, which is not to say it completely suppressed the behavior. Another version of (b) is to reverse Plunkett's formula and use government power to take someone's property, then provide it with whatever excuses one has to the true beneficiary, such as with condemnation of property in order to build the railroads (whether there was corruption there, I do not know, but there was opportunity). In the modern world, public-private partnerships are likely vehicles for such corruption. A third version of (b) is the use of police power to set up a protection racket, to enable theft or other property crimes, or to enable violent crimes such as hate crimes or rape. The old public administration made few inroads against this form of corruption, and, as far as I can see, NPM has little more to offer.

The last version of (b) that I will mention is bribe taking. Bribe taking is a version of the protection racket where the objective ranges from just going ahead and do your job (the bribe is to get priority) to overlooking some regulation you were supposed to enforce to

rendering judgments differently than you might otherwise render them (sometimes, the "otherwise" is what you were supposed to do, but sometimes the "otherwise" is intentionally adverse to the potential source of the bribe). As far as I know, bribe taking, except when it is called a political campaign contribution, has been illegal for longer than most all other forms of corruption, but it seems to remain pervasive. I would be surprised if NPM has much influence on it. On the whole, I do not see why NPM should reduce any of these forms of corruption; it might marginally increase these risks with respect to use of public-private partnerships.

Let's address (a) now, taking government's money or assets. One form of this is embezzlement (and small property thefts). Let's just dismiss this; NPM is going to do no more about embezzlement or small property thefts than it does about police rackets. A second form is employment patronage. Government money is taken by the employee who, in turn, provides some desired good to the patron, for example a vote or staffing an election campaign. Suppressing employment patronage IS the old public administration. One of the big problems with the old public administration is the instrument it developed to suppress patronage (civil service with virtually a property right to one's job) had some severe side effects (namely, the inability to get rid of non-performing employees; but browsing the literature of superannuated employees from before 1900 suggests that this problem pre-dates civil service law). Cynics (and some academics who occasionally present a paper on this) suggest that part of what NPM is about is getting around the old public administration's suppression of employment patronage. Contracted out agencies might be influenced by recommendations (however informal) from people who appear to have influence over contracts. It is, in any case, unlikely (if not impossible) that NPM will do better at suppressing employment patronage than the old PA did.

The third form of taking government's money is manipulating contracts and purchases. The old PA, as everyone knows, purchases everything too expensively because it is determined to prevent contracting/purchasing manipulation. The sellers charge a premium for jumping through all of government's hoops. Competition is suppressed because many sellers just won't bother. All of this is probably true. Still, I am prepared to make the BOLD ASSERTION that old PA never did half as good a job suppressing contract/purchasing manipulation as it did with suppressing employment patronage. First, the payoff is so much higher. One good contract manipulation might be worth dozens, hundreds, or even thousands of employment patronage successes. Thus, more effort can be contributed to this form of corruption. Second, there are so many opportunities: insider knowledge, manipulating specifications, quashing whole contract processes when the results are not as desired, sole source contracts, post award adjustments, on and on and on. Third, it doesn't require corrupting all that many people to corrupt a bid process. I will assume my point is made. As far as I know, NPM has done nothing to decrease the risk of contract corruption. It has, however, redirected a lot of governmental expenditures to contracts. If anyone thinks that the NPM has gotten a better kind of contractor or better kind of contract officer (or better kind of politician), they should read the literature of political reform from 1890 through 1920. There is no such thing as a better kind of these sorts, everyone who goes bad started good (well, probably not everyone, but most).

There are two other types of corruption that don't appear to fit well into the schema I have laid out (a) evading regulations and (b) the disguise. (a) Evading regulations is the

"new" corruption. Actually, it isn't corruption at all unless the point of evading the regulations is to commit those corrupt actions the regulations were intending to suppress (in which case, see above). Often, however, evading regulation comes from other motives, such as trying to hold onto some shred of privacy or just not wanting to bother with all that paperwork. While contractors can charge a premium for jumping through hoops, government employees are stuck with the same old salary. New employees might charge a premium in the form of refusing to work for government, but old employees probably find leaving hard. To the degree that NPM eliminates regulations, it can reduce this form of "corruption." However, if those regulations were effective (recent literature suggests they usually are not), there is a price in the form of increased exposure to the old corruption. (b) NPM can also be related to corruption in the form of the "disguise." The disguise is using something for something other than what it is purported to be. Irene Rubin's first message included an example, where contracting out was a forgone conclusion so that a subsequent cost comparison was a disguise. NPM can be a vehicle for the disguise, where contracting out as NPM is really just directing a corrupt contract somewhere. Former NYC Mayor Giuliani was accused of this with respect to a big welfare privatization contract. This isn't really a NPM problem, the disguise is as old as reform. For the crafty corrupt decision maker, change is opportunity. Still, skeptics and cynics might think that NPM includes too much disguise.

In summary, NPM isn't very much related to corruption, which might be good since some of the most dysfunctional elements of the old PA were related to its suppression of corruption. Still, NPM has a large exposure to corruption since it relies on a form of expenditure that is easily corrupted. There is nothing about NPM that would change the risk of corrupt contracting except that it uses contracting more often.

Dan Williams, Baruch College

12. I agree with Irene. Most local governments, especially small one's in the Chicago Metro area do little if any program eval or follow-up on contracting decisions and results. Most want to claim their efforts were a success. This is not necessarily corruption, as much as the Ostrich with her head in the sand.

Jerry Gabris

13. Switzerland, as some of you might know, is both a fairly incorrupt and NPM friendly country. This supports Steve Kelman in his view that NPM champions are among the least corrupt countries in the world. However, this does not tell us anything about the directions of this relation. Could it be that these countries are in favor of contracting BECAUSE there is no fear about corruption?

This again, would lead us to the thought that corruption is a cultural phenomenon that is not created or defeated by any reform such as the new public management. Moreover, as I experience it in Europe, NPM will be used in a format that it fits to the national culture - it is used in a very particular national way.

For Switzerland, none of the evaluations that have taken place have found any evidence that corruption has increased or decreased with the implementation of NPM (see also the next issue of our International Public Management Review at <http://www.ipmr.net>, coming within the next days). I have to stress out, however, that this was not the major concern of the evaluators and therefore would have come up more coincidentally than systematically. But this tells us something, too.

I would agree that there is some potential for corruption at the level of single administrators, namely the ones that are doing the operational business with contracting. We experience that in some cases, these people gain new power over external contractors and have to get used to it.

If NPM succeeds in increasing transparency as it did in Switzerland in most of the cases, I would argue that this is one of the strongest control mechanisms. In sum, the balance seems fairly in favor of NPM (with transparency) rather than against it.

Kuno Schedler, University of St. Gallen, Switzerland

14. As I think I was the first respondent to this request I thought I'd like to add some brief comments.

First, evidence! I think (I may be wrong) I am the only one to have offered citations (I know it was only two), which related to the subject (Talbot, 1994; PAC 1994). I think we should try to at least introduce some facts - or even citations - or is that just crass empiricism?

Second, Steve Kelman comments about 'old' versus 'new' public management are simply historically wrong. What Christopher Hood has called (rightly) progressive public administration (PPA) was a reaction against the sort of corrupt politics and administration prevalent in Europe and north America in the late 19th and early 20th centuries. What Steve calls 'old public management' was precisely a reaction against corruption and had variable success. So to counter-pose NPM to 19<sup>th</sup> century pre-PPA reforms is just a non sequitur. The real contrast is PPA versus NPM.

So-called NPM (and I agree with Alex Matheson that the term covers a multitude of 'sins') is unlikely to be more or less susceptible to corruption, theoretically, than PPA and empirically we have very little systematic evidence either way. A lot of the discussion has simply paraded people's prejudices pro or anti 'NPM'. Can't we do better than that?

Third, any system of public administration and management is susceptible to corruption - the question is how, and what can be done to prevent it? NPM - I argued in my contribution - changed accountability, audit and inspections regimes. Any change opens up scope for potential error and corruption - the question is how to address this? Accountability and inspection regimes have to change to accommodate new structures and systems. The paradox is that unless we are careful the new 'audit society' (see Power 1997) can end up creating more costly mechanisms for controlling 'decentralized'

and 'contracted' systems than the efficiency gains they make through the reforms (for a fascinating analysis of the UK's experience see Hood et al 1999).

This is not to say reform should not be attempted - but it is to say we have to recognize that issues like probity, equity, equality, etc don't disappear and still have to be addresses, albeit in different ways. What Hood et al's work shows is that those who tried to pretend it didn't matter ended up reinventing audit and inspection along with government, and badly at that.

In a recent study we did of a type of NPM reform (creating agencies) we found that in developing and transitional states (Latvia, Jamaica, Tanzania) there was a very real danger this would open up new channels for corruption unless specific steps were taken to prevent this (see Talbot & Caulfield 2002). In this context NPM reforms can be very risky (corruption wise) but in developed states with strong cultural and audit systems to prevent corruption the danger is less (but, again, any change is potentially hazardous).

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Colin Talbot

#### 15. A few quick things:

A) If machine cities are not the old public management, then contemporary Chicago, or a number of the other examples cited in various emails, is hardly the new public management.

B) NPM is not, in my view, mainly about contracting out, but about a results-orientation for government. I believe that, if anything, such an orientation inhibits corruption (because corrupt decisions tend to produce worse results), though it does create a different risk of fudging numbers because of performance pressures.

C) We don't have enough good empirical work about contracting versus in-house provision. For ordinary commercial activities, the evidence from the RAND study, as well as from GAO studies, is strong that creating competition for in-house work lowers prices, even if the in-house people win the competition. I don't believe it's good, generally, for government managers and executives to be wasting attention on managing

non-core activities (such as employee cafeterias, along with many other commercial activities that are done inside government) rather than concentrating on core government functions.

D) The make-buy decision has lots of variables to it, probably too complicated for an email exchange. However, we can all certainly agree that in an age where contracting is becoming more important, we need to pay attention and develop research evidence on contract management and contract structuring, and how these affect performance.

E) My guess would be that in societies with little corruption in contracting, increased contracting does not increase corruption. However, contracting creates a business lobby for programs that are contracted, leading to the counter-intuitive conclusion that supporters of a big role for government should love contracting.

Steve Kelman

16. I have read the contributions thus far and welcome what has become a general discussion of corruption. Some points.

A. It can be assumed that the propensity to indulge in corruption is universal, and that; in the absence of mechanisms to deal with it public servants in any country will seek to use their offices for self-enrichment.

B. It follows that corruption results from management failure, that is if the systems set up within government are so poorly designed as to provide a reasonable opportunity for the potentially corrupt to take a chance that they will not be discovered. Ethical schemes may help but are ineffective by themselves compared to having good management practices.

C. It is the case that the nineteenth century system of public administration - which Hood calls Progressive Public Administration and I call the traditional model of public administration - was a reform movement to deal with corrupt practices such as nepotism and the spoils system in the US. This was partially, but not completely effective.

D. In terms of systems of monitoring and management, what is the relative strength of traditional public administration compared to NPM? There is no obvious answer. Traditional bureaucratic mechanisms are powerful for compliance but do not necessarily control the propensity for corruption. NPM does offer increased transparency and a more open system. There may be opportunities for corruption in increased contracting in NPM but there were many opportunities in the old bureaucratic system, as is most readily shown by the endemic corruption in developing countries under that model.

E. As Steven Kelman says rightly a focus on results is the key feature of NPM and if results are not achieved the manager is at fault. It is difficult to simultaneously achieve results and be corrupt especially when the system is more transparent than before. All kinds of corruption can be hidden when organizational design and process are pre-eminent as in traditional bureaucracy. Managers are required to achieve results in NPM. This does not mean they do so without control mechanisms. Robert Behn describes this as what should be a widely-used slogan 'Trust but verify'.

[Behn, Robert D. (2001) Rethinking Democratic Accountability (Washington DC: Brookings Institution Press)]

Professor Owen Hughes, Head, Department of Management, Monash University

17. Sorry if this is out of sequence. I have had problems sending out a message on our list server. Several days ago I wrote:

It may be argued that to the extent NPM, or new management reform, stresses transparency, accountability and evaluation then it will, in theory, reduce opportunity for corruption. However, I agree with Irene Rubin that, whether in an NPM mode or under traditional PA, governments tend not to evaluate the results of contracting effectively, or at all. Always there are political incentives to avoid evaluation, as has been noted. However, if new managerial models place responsibility on managers for the outcomes of the contracts they manage, and then there would appear to be increased incentive to evaluate. Still, under this assumption a bias to find favorably for the contractor (and manager) is present.

The US Department of Defense has perhaps more experience with contracting for goods and services than any other organization in the world...in dollar volume and number of contracts let per year. DOD experience appears to demonstrate that contracting can be done well or badly, depending in great part on the knowledge and skill of the government contracting agent, the type and characteristics of good or service contracted, and whether there is a competitive market in which contracts are made. A Brookings Institution analyst interviewed today noted that DOD contracting out for logistics for the US Army in the Balkans had worked out well while contracting for security services and aircraft maintenance had gone badly.

Attempting to take advantage of competition to drive down price and increase contractor customer responsiveness where markets do not exist appears to be a major flaw in contracting execution virtually everywhere. Failure to educate and train those who manage contracts also produces terrible results. As Rubin noted, the theory of NPM and contracting is fine. However, it is the execution that determines success or failure in great measure. DOD experience seems to indicate that, as with other tasks, the more contracting that is done, the more that is learned from the experience -- so future performance improves. Failures in the implementation of new approaches in government may be anticipated. Patronage and pork seem to thrive under any form of arrangement for goods and service production, whether public or private. Incentives to learn and correct for failures, and political support for integrity in government, are keys to success.

I also agree with Alex Matheson on several points. We probably are loading too much onto NPM. The use of the terms "reform" or "change" for new approaches to management in government is more useful than applying the NPM moniker to all that is new. This is because, as Alex points out, NPM is a loaded term that means too many different things to practitioners, academics and others. And to reiterate previous IPMN dialogue, NPM is no longer an accurate term if for no other reason that it is not new,

and reforms in governments are too varied in intent and method to be subsumed under one term.

Larry Jones

18. I find the threaded discussion to be very stimulating, specifically the dynamics of corruption and NPM (or PPM whichever is one's personal preference). What I am interested in is the assumption that reform - results-oriented or management oriented - will impact corruption. Again, I think we fall victim to the notion that an individual's propensity to be corrupt is a function of the accountability structure within an organization. What I find particularly interesting is the assumption that we can control corruption, whether political or administrative, and that given enough administrative control, administrators will follow the rules. Does any one see this linkage as problematic? Or is it just my personal biases that organizations cannot control behavior, either through contracting or empowerment, and that fraud is a function of one's personal preferences.

Along the lines of Dr. Rubin, I am currently engaged in research examining the fraud/red tape dilemma in public procurement. Specifically, I am looking at the nature of procurement fraud in the areas of decentralization/centralization, service delivery manager's propensity to "by pass" the defined), and procurement's role of organizational "watch dog." My assumption is that individuals in exactly the same situation will respond differently given their person risk/return preferences and that the accountability structures in organizations can only inhibit personal action not control it. Therefore, any effort to "reform" organizations to make them less corrupt should be addressed at the individual level rather than at the systems level.

Any thoughts are greatly appreciated.

Clifford P. McCue, Associate Professor School of Public Administration, Florida Atlantic University

19. In my opinion there is no necessary relationship between NPM and corruption, but a possible one. If one takes the German "New Steering Model" as an example, one can get to the following two observations:

(A.) On the level of the conceptual model it seems to be quite clear that decentralization of responsibilities means a reduction of central controls of the traditional type, as well as the constitution of interlocked decentral and central controls of a new type, that are based on indicators of different kinds, and allow for intense evaluations of efficiency and effectiveness. One may hypothesize that these controls can be designed and organized in a way that makes them superior to the old ones with respect to the discovery and possible prevention of corruptive behavior.

(B.) On the level of implementation one can quite easily discover, however, that the necessary links between decentralization and the establishment of modern controlling activities are by no means guaranteed. In Germany one can observe that modernization



processes are for 'practical reasons' quite often broken down into 'projects' that are only loosely connected in operational terms, although the 'strategy' maybe okay in general terms. The establishment of links between decentralization and controlling seems to be a particularly sensitive point in this connection, because every side contains a lot of internal complexity of its own that causes separate problems and suggests separate solutions. So in practice well-designed links between the two sides are rather the exception than the rule. As a consequence of this, ample chances for 'black holes' emerge, which may encourage corruptive behavior.

This will be the more the case as corruption has not been a topic among modernizers so far. The conclusion should not be, in my opinion, to make NPM as such responsible for a continuation or rise of corruption, but to think more explicitly about the problems and possible pitfalls of the implementation of NPM, and to acknowledge the prevention of corruption as a legitimate and important topic of the modernization of the public sector.

Helmut Klages, German University of Administrative Sciences, Speyer

20. One set of blinders that sometimes befalls those who study public management is to avoid acknowledging the considerable role of politics, which is an inevitable part of the very essence of all things public. Some scholars do this knowingly, bracketing political "variables" temporarily while acknowledging their relevance for a later time. Some scholars appear to think that politics either is or somehow can be made to be irrelevant, if we can achieve a certain level of professionalism or empirical knowledge of "how to get it right."

As this (rather controversial) column suggests, politics is quite relevant to our discussion of the possibility and degree of corruption vis a vis new public management. The degree to which (aspects of) new public management have simply been hijacked politically is an interesting one, I think.

Like the other corruption questions that have been raised on the list, this question too is essentially empirical.

I would only caution that to ignore (or even bracket) the political in our empirical work on corruption and on new public management risks a particularly dangerous sort of irrelevance.

Guy Adams, University Missouri

*Victors and Spoils*

November 19, 2002

By Paul Krugman

Rule No. 1: Always has a cover story. The ostensible purpose of the Bush administration's plan to open up 850,000 federal jobs to private competition is to promote efficiency. Competitive vigor, we're told, will end bureaucratic sloth; costs will go down, and everyone - except for a handful of overpaid union members - will be better off.

And who knows? Here and there the reform may actually save a few dollars. But I doubt that there's a single politician or journalist in Washington who believes that privatizing much of the federal government - a step that the administration says it can take without any new legislation - is really motivated by a desire to reduce costs.

After all, there's a lot of experience with privatization by governments at all levels - state, federal, and local; that record doesn't support extravagant claims about improved efficiency. Sometimes there are significant cost reductions, but all too often the promised savings turn out to be a mirage. In particular, it's common for private contractors to bid low to get the business, and then push their prices up once the government work force has been disbanded. Projections of a 20 or 30 percent cost saving across the board are silly - and one suspects that the officials making those projections know that.

So what's this about?

First, it's about providing political cover. In the face of budget deficits as far as the eye can see, the administration - determined to expand, not reconsider the program of tax cuts it initially justified with projections of huge surpluses - must make a show of cutting spending. Yet what can it cut? The great bulk of public spending is either for essential services like defense and the justice system, or for middle-class entitlements like Social Security and Medicare that the administration doesn't dare attack openly.

Privatizing federal jobs is a perfect answer to this dilemma. It's not a real answer - the pay of those threatened employees is only about 2 percent of the federal budget, so efficiency gains from privatization, even if they happen, will make almost no dent in overall spending. For a few years, however, talk of privatization will give the impression that the administration is doing something about the deficit.

But distracting the public from the reality of deficits is, we can be sure, just an incidental payoff. So, too, is the fact that privatization is a way to break one of the last

Remaining strongholds of union power. Karl Rove is after much bigger game.

A few months ago Mr. Rove compared his boss to Andrew Jackson. As some of us noted at the time, one of Jackson's key legacies was the "spoils system," under which federal jobs were reserved for political supporters. The federal civil service, with its careful protection of workers from political pressure, was created specifically to bring the spoils system to an end; but now the administration has found a way around those constraints.

We don't have to speculate about what will follow, because Jeb Bush has already blazed the trail. Florida's governor has been an aggressive privatizer, and as *The Miami Herald* put it after a careful study of state records, "his bold experiment has been a success - at

least for him and the Republican Party, records show. The policy has spawned a network of contractors who have given him, other Republican politicians and the Florida G.O.P. millions of dollars in campaign donations."

What's interesting about this network of contractors isn't just the way that big contributions are linked to big contracts; it's the end of the traditional practice in which businesses hedge their bets by giving to both parties. The big winners in Mr. Bush's Florida are companies that give little or nothing to Democrats. Strange, isn't it? It's as if firms seeking business with the state of Florida are subject to a loyalty test.

So am I saying that we are going back to the days of Boss Tweed and Mark Hanna? Gosh, no - those guys were pikers. One-party control of today's government offers opportunities to reward friends and punish enemies that the old machine politicians never dreamed of.

How far can the new spoils system be pushed? To what extent will it be used to lock in a permanent political advantage for the ruling party? Stay tuned; I'm sure we'll soon find out.

21. I saw this Paul Krugman article in *The New York Times* yesterday, and I was, frankly, amazed that an academic would venture so far outside his area of scholarly expertise to write about a subject where he is quite ignorant. My own reaction -- and I'm a Democrat, and certainly don't defend the Bush administration on everything, to put it mildly -- is that this article was rife with errors and misunderstandings. Imagine if a public management scholar had written a column about technical issues of economic policy -- how would an economist such as Krugman react?

Steve Kelman

22. Just a few more points:

A) The "new" policy is a wrinkle on a longstanding government policy about competing commercial-type jobs. Many/most of the jobs we're talking about are non-core government functions that government managers should be looking to offload to private-sector firms specializing in these -- running mail rooms, data centers, etc. Some of the other jobs involve government software code writers where it is, generally, unlikely that government will have a comparative advantage -- in the IT area, government should be centering on IT strategy and contract management.

B) For most of these jobs, there is a vigorous competitive commercial marketplace, so the danger of "buy-in" where the contractor will come in low and then have a monopoly position is small. There will be many other contractors out there to replace a poorly performing incumbent. Where this is an issue, government should be very cautious about outsourcing. And government needs to assure a good procurement process (this has become much better federally in the last decade) and better contract management.

C) The evidence we do have, from RAND and GAO studies, is of significant cost savings from public-private competitions. There was an article on this a number of years ago in the *Journal of Public Policy Analysis and Management* by the RAND researchers. The evidence isn't perfect, but there is evidence (appearing in a peer-reviewed article in one of our major journals).

D) There is no evidence for the proposition that federal procurement decisions to choose one contractor over another are made with political considerations. This is an insult to the career federal workforce that makes these decisions. If anything, the accusation has been that in the initial make/buy decision (public-private competition), federal workers (who make that decision) tend to support their civil service colleagues -- indeed, occasionally, the group being subjected to competition has made the decision about whether the government or contractor team wins.

E) If anything, when jobs are contracted out, this creates a lobby for "big government" - - contractors want to keep contracted programs alive. This is of course the famous "military industrial complex." But we see it in the area of college student loans, where an important lobby for the pro-student, pro-taxpayer "direct lending" program, which has been very controversial (opposed by private banks and Sallie Mae) has been the contractors managing IT for the direct loan program.

Steve Kelman

23. On errors and misunderstandings: The Administration's original effort to increase public-private competition long predates the growth of the federal deficit. What the Administration announced last week was revisions to the text of the old OMB Circular A-76, governing the rules for public-private competition. The rule changes followed the recommendations this summer of a panel chaired by the Comptroller General (head of the GAO), which in turn was set up pursuant to a congressional mandate several years ago to study the rules for public-private competition. So Krugman's suggestion that this is some new political plot by the Administration are way off base. And I say this as a Democrat who by no means, to put it mildly, always supports the Bush Administration.

Daniel Williams

24. The following is an essay by H. George Frederickson published first in the *PA Times* (American Society for Public Administration) titled, "Public Ethics And The New Managerialism."

Consider some of the primary ingredients in the new managerialism recipe:

- First, sharply reduce governmental regulations and red tape;
- Then mix this with privatizing and contracting-out many public functions thought heretofore to be primarily governmental;
- Now reduce significantly the directly employed governmental workforce;

- Do not train a cadre of government employees to be competent contract managers;
- Now mix all of this with the widespread application of market logic and particularly the idea of institutional competition;
- Finally, stir for a decade in a hot political and social environment.

What would be the products of this recipe? Its texture, flavor, smell? In the long run will the recipe produce greater government efficiency? Will there be fairer government? More honest government? Will this recipe cook a widespread increase in the legitimacy of government in the eyes of the people? In the following pages I consider the ingredients in the new public management or managerialism recipe with my eyes firmly fixed on issues of public sector ethics and government corruption. It is popular to take the view that the new managerialism is here to stay and should be understood as the context within which we work. This leaves those of us interested in ethics in the position of determining how to make government as ethical as possible under the circumstances. (Gilmour, 1997) From this position one would argue, for example, that an increased propensity for corruption associated with more contracting out, could be at least partially ameliorated by greater transparency in public affairs. From this practical position one accepts greater contracting out as a political and administrative given and then suggests ways to get the presumed benefits of contracting out while reducing the risks of corruption. This is situational ethics. Such a position is particularly useful for the ethicist wishing to be part of modern trends and directions while still doing ethics. In this way the ethicist does not spoil the recipe for managerialism reformers nor spit into the managerialism reform wind. Ethicists, like most others, wish to be associated with the excitement and momentum of reform and dislike being regarded as retrograde defenders of the status quo, or worse, shrill voices suggesting that we have failed to learn the lessons of history. If, for example, one argues the position that managerialism itself is inherently less ethical and has a greater propensity for corruption regardless of the adoption of "safeguards," it leaves the ethicist defending the status quo, including all of the corruption that is part of it—a particularly vulnerable position to defend I shall take that position nonetheless, following the dicta that it is always possible, particularly in the name of administrative reform, to make things worse. Furthermore, there are points at which it is the duty of the ethicist to spit into the wind and I believe this to be one of those points.

### Some Defining Assumptions

To consider the characteristics of the new public management recipe and to evaluate its likely results, I make some defining assumptions upon which the argument rests. This is an axiomatic argument, axioms (generalizations or modalities) that I believe to be both empirically verifiable and deductively demonstrable. All axioms, like all generalizations or modalities, are subject to amelioration, to modification, to adaption; but they are not subject to complete (or usually even significant) retraction, cancellation or repudiation. Axiom One: Most forms of government corruption—conflicts of interest, bribery, fraud, kickbacks, skimming, trading on the prestige of office—occur at the point of transaction between officials formally representing government authority and the use of public money on the one hand and individuals or organizations seeking money, favor or influence on the other hand. In this assumption the key is the "point of transaction." The point of transaction can be petit, as in the case of the police officer deciding whether to

give a ticket, or the licensing officer deciding whether to grant a license. The point of the transaction can be grand, as in the case of the Defense Department procurement officer, or group of officers, deciding which defense contractor will get a multi-billion dollar contract. Axiom Two: Absent laws, rules, social conventions and/or social reciprocity, rational persons and firms will act on the basis of self-interest. Here I accept the rational, utilitarian assumption and argue that it is democratic laws, rules and social conventions that cause or influence both individuals and firms to adjust or adapt self-interested behavior in the direction of collective interests. Axiom Three: Under democratic conditions, government institutions are more public regarding than either non-governmental institutions or public firms. It follows then, that the values of justice, equality and equity are greater in governmental institutions than in non-governmental institutions or private firms. Axiom Four: Efficiency values are greatest in private firms in perfect markets. As market imperfections increase, efficiency tends to decrease. Although it is not an axiom, I am making a critical assumption about the ethics of public officials. Ethics is very much more than attempting to combat corruption. It is also doing well. I accept the Joel Fleishman argument that in an imperfect world with imperfect men and women, government ethics will be found in a selfless public service. (Fleishman, 1981, 82-83) The prospects for ethical government are greatest when there are selfless public officials. Those prospects decline when government becomes weak and incompetent, rendering even selfless public officials lacking in capacity. And the prospects for ethical government decline when public officials are more selfish. Both the logic and the effects of the new managerialism move democratic government further away from the prospects for an influential and selfless public service.

### Cutting Red Tape

The first ingredient of the new public management recipe is to sharply reduce governmental regulations-red tape. I shall use as an example the National Performance Review process directed by Vice President Al Gore, which has led the process of slashing and simplifying the regulations in the Federal Register. (Gore, 1995) The logic is pure managerialism-results, not rules; or, in the words of the currently popular book *The Death of Common Sense*, "Decision making must be transferred from words on a page to people on the spot." (Howard, 1994) In many ways this is very good news for public administration. It conveys a much-appreciated trust to maligned bureaucrats, an indication that they should have the discretion to use their expertise, professionalism and common sense to be good managers and to be ethical. The NPR, in referring to public administrators, assumes "we're honest, not dishonest, intelligent, not stupid." (Gore, 1995. 33) It also invites bureaucrats to find creative and simplified ways to solve problems and to be effectively regulatory without an excessive build-up of regulation sediment, recognizing that in that sediment are many obsolete regulations and much pointless paperwork. Finally, the NPR process calls for government reinventors to "get rid of bad rules and make good ones easier to understand." (Gore, 1995. 29)

In the enthusiasm for cutting red tape, it is useful to remember the reasons why some of that red tape got there in the first place. I shall deal here with just two. First, is the matter of due process and fairness? Simply put, the logic of due process and fairness "obliges officials to give people affected by governmental action a fair chance to get their views on official decisions registered so that their interests are not overlooked or arbitrarily overridden by those in power." (Kaufman, 1977. p. 43) Due process is time consuming, cluttered with paperwork, and often expensive. And the results are not

always entirely fair, persons and institutions of power and influence having their usual advantage. "To be sure, were there no Administrative Procedure Act, agencies would not cavalierly trample the rights of their clients; their statutes, judicial precedents, political pressures, and generally accepted standards of equity would keep them in check. But the act unquestionably compelled them to formalize and elaborate their procedures to a greater degree than they otherwise would." (Kaufman, 1977. 45) In addition, there are special due process protections covering government employees which provide protection from arbitrary dismissal, from political influence and which guarantee fairness in hiring, promotion, assignments and the like.

How far is it possible to go in cutting red tape and streamlining government procedures without harm to our cherished rights and without doing some damage to fairness? At a minimum it is folly to imagine that there is no trade-off between sharply reducing the regulations that guarantee procedural due process and the substance of individual rights and the quality of governmental fairness. Despite the political slogans of those who are reinventing government, they cannot have it both ways-to reduce procedural due process regulations yet guarantee fairness for individuals and groups protected by regulations.

Second are the matters of compassion and protection. Much of red tape can be traced to the wish to protect citizens in advance of possible harm by, for example, assuring the purity of food, the safety of flight, or the safety of drugs. Much government red tape protects us on the highways (think of air bags, for example) and in the air. Hundreds of agencies at all levels of government are in the business of protecting us in advance, primarily through regulations and their enforcement-red tape. And this regulation is often associated with the "point of transaction" when the citizen buys a product or receives a service. This regulatory process puts a considerable burden on those who make the products we buy and those who sell the services we use. Because of federalism there is considerable duplication in the regulatory process, a further burden on producers.

There is also a good bit of red tape designed to influence many forms of human association-schools on one hand and students and parents on the other, labor and management, borrowers and lenders, brokers and investors, management and individual workers, researchers and their human subjects, husbands and wives, parents and children and much more. Laws and regulations associated with possible cases of sexual harassment, child abuse and spouse abuse are excellent contemporary examples of red tape which would influence human association.

Red tape is a handmaiden to government programs of compassion, such as food stamps, aid to dependent children, Medicare, Medicaid, and the like; after all, matters of eligibility and fairness are critically important. And, of course there are many regulations associated with subsidy programs to farmers, small business owners, all families that own homes, etc.

There can be little doubt that there has been corruption associated with many of these programs, despite regulations and red tape. It is illogical to assume, however, that there would be less corruption in the absence of regulations and red tape. More important, however, are the bigger policy issues associated with the protection of citizens and compassion toward citizens; is it possible to achieve the results these programs have

achieved without regulations and red tape? In the passion for deregulation is it possible that government will be less fair, the citizens will be less safe, and we will all be less compassionate? Are these not ethical questions?

Even if there was evidence that deregulation does not increase the propensity for government corruption, and there is no such evidence, debating the linkage between regulations and government corruption begs a bigger and more important ethical question. That ethical question is whether government regulations can make citizens safer, and can make life more fair and compassionate? As Axiom One indicates, I think, the answer is yes. Public officials may be inclined, by education and disposition, to be compassionate, to protect us, and to be selfless, but laws and regulations codify those responsibilities.

Finally, I turn to Herbert Kaufman for his description of the importance of rules, regulations and other forms of red tape:

The temptations facing the government work force are varied and enormous. They handle hundreds of billions of dollars in revenues (paychecks, retirement benefits, payments for supplies and services, rent, subsidies, tax refunds, etc.) and vast quantities of removable property, from postage stamps and office equipment to vehicles and electronic gear. Without exceedingly high controls, nobody would ever know if one government employee took a little here, and took a little there, and a third pocketed a bit somewhere else. . . . It is sometimes said the prevention costs more than the ailment. But, our attitude toward public property is typified by the comments of a famous economist ordinarily inclined to reject costs that exceed benefits in dollar terms: "The Office of Management and Budget should spend \$20 to prevent the theft of \$1 of public funds." (Okun, 1975, 60) Not only are public property and public discretion held to have a special moral status; they occupy a special political position because abusing them eats away at the foundations of representative government. (Kaufman, 1977, 50-53)

Laws, regulations, and red tape set out the rules of behavior at "the point of transaction." That these regulations are a drag on government efficiency is acknowledged. That these regulations can be duplicative, confusing, and too tightly drawn is also acknowledged. It is unquestionably helpful to administration to deregulate, particularly if effective administration is defined as efficiency. But regulations have always had more to do with ethics than with efficiency.

#### Increase Privatization And Contracting-Out

In government, few subjects are as politically fashionable as contracting-out and privatization. In view of the widely shared perception that contracting-out and privatization is good public administration, it is not surprising that there have been few voices raised regarding the matter of ethics.

In the United States privatization is almost always achieved by contracting-out, traditionally for capitol projects such as buildings and roads and for goods such as defense machinery and weaponry. Contracting-out in this form is the virtual definition of the logic of point of transaction as determining ethics. The long history of the private construction of buildings, roads, prisons, military airplanes and the like for government by contract all yield about the same set of conclusions. To insure quality and to



guarantee against kickbacks, skimming and fraud it is essential to have very tightly drawn contracts and careful, close oversight, preferably by experienced government contract managers (Kettl, 1993). This is the so-called "smart buyer" argument. When the government is not a smart buyer it will get either a shoddy product or be open to corruption. Given their long experience with construction companies and with vendors, most state and local governments are smart buyers most of the time. In some states and localities, however, there are long traditions of graft and kickbacks associated with contracting-out. Indeed when former Vice President Spiro Agnew was the elected executive of Baltimore County and later Governor of Maryland, he engaged in so called "sand and gravel politics," a long-standing contracting kickback scheme. This was discovered after he was elected Vice President and he was forced to resign.

In the 1970's and 1980's many cities and counties developed autonomous economic development authorities freed of traditional governmental restrictions and regulations in their relationship with vendors and contractors. Several have been exposed as particularly corrupt (Henriques, 1986).

It is fashionable these days to contract for social services at the state and local level. After reviewing a host of such contract arrangements, Kettl found that:

(1) State and local governments tend not to know what results their social service contracts are buying. (2) Competition is low. (3) Contracts may degenerate into what are effective monopolies for the private vendors. He concludes that, state and local governments are engaging in the equivalent of a shopping trip while blindfolded, with little effort spent to squeeze the tomatoes or thump the watermelons. (1993, 175)

In the 1980's there were three huge corruption scandals in the U. S. National Government. The biggest and most expensive was the savings and loan scandal, directly associated with a combination of deregulation, a diminished oversight capacity, and a promise of federal dollars to back-up investments (savings) in savings and loan banks, should they fail. Fail they did, and in very large numbers at a cost of thousands of dollars to every American taxpaying family (Thompson, 1993; Steinback, 1989; Rom, 1996).

The largest single defense scandal in American history also occurred in the 1980's. In his *When the Pentagon Was for Sale*, a history of the so-called "ill winds" scandal, Andy Pasztor found that many of America's most respected defense corporations were systematically engaged in making payoffs to Defense Department procurement officers, setting up slush funds, rigging bids and giving bribes (1995). This entire scandal had to do, in one way or another, with contracting-out and with a lack of oversight.

To drive the point home, however, nothing can match the HUD scandal. HUD, in the early Reagan Administration, was directed by Samuel Pierce and was led by a group of young political appointees from the private sector with little experience in housing.

From a rather early point in the HUD scandal it was commonly known that there was widespread corruption at HUD. Several General Accounting Office reports were strongly critical of HUD during this period (Kilpatrick, 1989, A-25) HUD's own Inspectors General during this period criticized the agency, but softly, or as James Kilpatrick put it in "pianissimo." (Kilpatrick, 1989 A-25)

If the HUD Scandal was generally known, why did the ordinary systems of oversight fail?

First, the HUD career civil service was evidently reluctant to blow the whistle. Some claim that they did not know what was going on. (McAllister and Spolar, 1989, A-10) Others wished not to rock the boat or believed there was little they could do about the corruption. And some had careerist excuses, worrying that they would lose their jobs. (A-10) Whatever the rationale, it was not a shining moment for upper level HUD civil servants.

Second, the Office of Management and Budget failed to act because it "was preoccupied with trying to terminating some of the programs of HUD rather than trying to police it." (1989, A-10)

The Democratically controlled Congress had direct institutional responsibility for oversight. Hearings would only come after the Reagan Administration ended, evidently because there was little political capital in hearings on HUD. (Kobrak, 1996) Key legislators claimed to have no knowledge of the corruption at HUD, despite the GAO and HUD IG reports. Congress was under little external pressure from local mayors, from developers, or from mortgage bankers, the traditional sources of HUD support, in part because much of the "money had dried up." (1989, A-10)

Putting the HUD scandal in perspective, Peter Kobrak describes a pervasive pattern of cozy politics. It must be understood that privatization via contracting-out is particularly vulnerable to cozy politics. It is not difficult for political actors and for contractors to turn privatization to their own purposes. In cozy politics the contractor wins the contract, or retains the contract through politics. (1996) Contractors, following Smith and Lipsky (1993, 171) become "players in the political process" rather than "sellers of services."

In his splendid treatment of privatization and contracting-out, Donald F. Kettl reminds us that there are "common problems (which) afflict all contracting relationships between buyers and sellers, in both public and private sectors. Conflicts of interest and monitoring problems are endemic to all transactions between principals and agents. The basic model underlying the competition prescription itself suggests that agents (contractors) will have many goals besides those of the principal (government) and that principals will have difficulty detecting which missions their agents are carrying out." (1993, 201)

At the close of his Presidency, Dwight Eisenhower warned against the cozy politics of his day, the power of what he called the military-industrial complex. Now we have many similar cozy relationships between government and private companies or non-profits, particularly as contracting-out has moved into the service side of government. There is the American county-mental health and drug rehabilitation non-profit complex (Milward, Provan, and Else, 1991); the U.S. cabinet department-beltway-bandit complex; the large American city-sports team owner demanding a new stadium to be paid for by the taxpayers complex (Rosentraub, 1997), and many more. Corruption such as fraud and kickbacks have always been a problem in privatization by contracting-out, but these days it may be the growing political influence of contractors that is the larger ethical question.

## Downsizing

We turn now to the most politically popular ingredient in the new managerialism recipe downsizing. Like deregulation and privatization, downsizing the bureaucracy is almost universally understood to be desirable. In the U.S. Federal Government's reinvention program, the directly employed civilian civil services has been reduced from more than three million to 2.7 million, or more than ten percent, in less than six years.

Bureaucratic downsizing is part of a more general move in the direction of smaller government. It turns out that downsizing bureaucracy is very much easier than simply cutting government. While both are politically popular, cutting government programs brings one to the problem of which programs to cut. Kettl and DiIulio put it this way:

There can be absolutely no question that the general idea of cutting government is deeply popular with the American people and hence politically irresistible. But as congressional Republicans are now beginning to learn the hard way, that general support begins to evaporate as soon as cutting government means cutting specific middle-class entitlements and constituency-based programs. For example, when asked which federal programs "should be cut back in order to reduce the federal budget deficit," solid majorities of Americans say no to cuts in unemployment insurance (64 percent), environmental spending (67 percent), Medicaid (73 percent), Social Security (86 percent), and, last but by no means least, Medicare (88 percent). Likewise, while 65 percent of Americans favor cutting government and reducing the deficit if that means cutting welfare programs, majorities would vote to prevent cuts in federal programs that aid farmers (52 percent), provide loans to college students (65 percent), put more cops on the streets (68 percent), and fund school lunches (77 percent). (Kettl and DiIulio, 1995, 2) By comparison, downsizing the bureaucracy appears to be much easier and the results appear to be clearer. In addition, cuts can be made across the bureaucracy, leaving programs in place but with fewer staff.

So, we want it both ways-to have smaller government yet retain all of the programs we cherish. The result has been that few programs have been discontinued. Defense spending and foreign aid have been cut but most domestic programs and entitlements have proved to be very resilient. The issue, then, is not cutting government, but reducing the number of those who work for government. (Kettl and DiIulio, 1995, 42-45)

The Federal Government had grown thick, particularly in the middle and upper ranks (Light, 1995) and it appears that downsizing has reduced some of this thickening. Most of the critiques of Federal bureaucratic downsizing are less positive. It is claimed that downsizing has sharply reduced worker morale, has resulted in a decline in institutional loyalty, and has impaired the institutional memory of many agencies. (Jones,1998)

None of these points are profound or new. What is provocative is the assessment of downsizing as "hiding the bureaucracy." In the hiding the bureaucracy argument it is claimed that the Federal bureaucracy has not been really downsized, it has simply been relocated and hidden. Put differently, the only way bureaucracy could be saved was to hide it.

Although the data are very difficult to find, these estimates are thought to be approximately right. First, the civilian Federal civil service was just above 3 million in 1992 and is now just under 2.7 million, a drop of more than ten percent in six years. But, the funds for the paychecks of approximately 15 million workers in the non-profit and corporate sectors can be traced directly to the Federal Government. For every one Federal civil servant there are almost 5 others in the hidden or shadow bureaucracy, working for government but not a part of government. These hidden bureaucrats are in the defense contract companies, the space contract companies, the beltway bandits, and in the non-profit and non-governmental organizations with governmental contracts. We know a very great deal about the Federal civil service. By comparison, we know very little about the hidden bureaucracy, which is five times larger. No agency or organization is charged with keeping track of the hidden bureaucracy. We don't know the size and composition of the hidden bureaucracy. We know little of the hiring practices and the diversity of organizations where these bureaucrats are hidden. What we don't know and what we suspect is this: that the hidden bureaucracy has grown at about the same rate as the civil service has been downsized. (Light, 1998)

In all of the rhetoric and hyperbole of reinventing government, the Contract with America, and the claim that "the era of big government is over" it seems that our political leaders have found a way to save the bureaucracy by hiding it. It can be realistically claimed that the bureaucracy is able to provide more and better services for less, supporting the reinvention slogan of "a government that works better and costs less." Because there is little evidence of government costing less, we suspect that the most of the labors of those who once worked directly for government are now being done by contract in the shadow bureaucracy.

If this is true, the Federal Government has managed to have it both ways-to shrink the formal bureaucracy and at the same time continue the services provided by that bureaucracy. The hidden bureaucracy is exquisitely fragmented into dozens of agencies and thousands of contracts and no agency or organization is keeping track of it. And the hidden bureaucracies are so complex and so far back into the shadows that it is unreasonable to expect the media to make it transparent.

For the new public service the central question is one of values. (Frederickson, 1997) It is clear that government employees are to pursue the public interest, as they see it, following Axiom Three. The value question is how to achieve the public interest when power is shared with organizations that have other interests and values. "There is powerful pressure in contracted-out programs for the contractor's goals to become the government's goals. It is tempting for the government to buy what the contractor wants to sell. Indeed, the close relationship among contracting experts, both in and out of government, make it even more difficult to make the government's goals paramount." (Kettl, 1988, 42)

The pursuit of public policy usually means making difficult tradeoffs between competing values such as equality and efficiency. When such policy choices are even partially delegated to or controlled by the hidden bureaucracy, we are face-to-face with the issue of accountability. In the new managerialism recipe, the answer to this dilemma is usually better or improved contract management, the subject to which we now turn.

## Are We Training a Cadre of Government Employees to be Competent Contract Managers?

When governmental activities are carried out by non-governmental organizations, hierarchies are partially replaced by contracts between governments and contractors. "Instead of a chain of authority from policy to product, there is a negotiated document that separates policy makers from policy output. Top officials cannot give orders to contractors. They can only shape the incentives to which the contractors respond." (Kettl, 1993, 22)

When contracts replace hierarchy the logic of management changes from long understood concepts or principles of administration such as coordination and staffing, to different concepts such as the formulation of requests for proposals or bids, the description and measurement of deliverables, systems of oversight, and the development of incentives and sanctions. Donald F. Kettl suggests that this form of public management has the smart-buyer problem. To deal with the smart-buyer problem it is essential that American government develop the capacity to be a smart-buyer. If it does not it will surrender authority and power to its private partners and "lose its ability to see the big picture and know how the pieces fit together." (Kettl, 1993, 205)

Is American government developing the capacity to be a smart-buyer? Kettl answers this way:

Unfortunately, as government's reliance on contracting out has increased, so too has its disinvestments in its own capacity. At one time, scholars of public administration celebrated the fact that the government employed world-class experts on virtually every issue: mapmakers, chemists, engineers, attorneys, housing economists, librarians, agricultural analysts, food safety specialists. The government no longer has such a range of in-house expertise. In part, that is because of quantum leaps in the complexity of governmental programs. No organization, public or private, can hope to be master of all of the knowledge that lies behind society's major post-World War II innovations. (Kettl, 205)

If Kettl's observations about the loss of capacity in the Federal government in the Reagan and Bush years are true, they would be doubly true of the Clinton years.

George Frederickson, University of Kansas

25. [Larry Jones wrote earlier in this dialogue] "It may be argued that to the extent NPM, or new management reform, stresses transparency, accountability and evaluation then it will, in theory, reduce opportunity for corruption." Similar views have been offered by many other messages. I will pass on "transparency" as I am unsure about it. However, I am under the impression that transparency is part of the old PA that NPM is reforming.

On the topics of accountability and evaluation, the implication is that effective or efficient (or best of all, both) organizations are not corrupt. I do not see why this would be the case. Certainly, some *KINDS* of corruption are contrary to effective/efficient

government. When the point of corruption is to not do your job (typical bribe taking), the corruption will reduce your effectiveness. When the point of corruption is to increase intermediate costs (the infamous Tweed Court House), then corruption will reduce efficiency.

However, when the point of corruption is to increase the effectiveness or efficiency of job (or contract) getting from the point of view of the potential employee (or contractor), there is no particular reason why the corrupted transaction (hiring/contracting) will also result in inefficiency or ineffectiveness. It is relatively easy to imagine the opposite, where the patron charges an efficiency or effectiveness premium to his/her beneficiary. That effect was, before its general collapse (if it did generally collapse), the aim of Jacksonian patronage. Who, more than the patron, would have an interest in the good behavior (and good performance) of those who s/he has sponsored? If patronage is illegal, that efficiency/effectiveness premium might be greater, since inefficiency or ineffectiveness could lead to uncomfortable investigations.

The person or organization that did not get the job/contract for lack of sponsorship complains of unfairness, not that the government agency overpaid for what it did get. This unfairness MAY imply inefficiency (by narrowing the pool of potential candidates/contractors) but it MAY not (the narrower pool could be biased in favor of high performers).

Without evidence in hand, it is unconvincing to assert that monitoring efficiency and effectiveness is a good proxy for monitoring for corruption.

Dan Williams

26. The "FAIR Act," which called for an inventory of government commercial activities -- and from where the 850,000 jobs numbers got derived -- was passed in the 1990's, and the "FAIR Act Inventories," which were developed by agency civil servants, and which have this total of 850,000 jobs, appeared before Bush was elected. Among the other misunderstandings in the Krugman article, he comes in with the latest chapter in something that has been ongoing for a long time and gives the reader the impression this was thought up yesterday.

Regarding Professor Rubin's comment on the studies about cost savings. Of course, all studies can be criticized and few academic studies are perfect. But there is a good deal more empirical evidence for the proposition that public-private competitions save money than, unfortunately, for many of the propositions about public management that we teach.

Steve Kelman

27. I tend to concur with Dr. McCue's two points [made earlier]. I would like to look at this issue from a slightly different perspective. Working in an Asian environment, we may observe that "anti-corruption" or "transparency-enhancing" mechanisms installed from above affect workers in far different ways. Part of this in institutional -- some

departments, and some organizations (e.g., one city versus another) seem to progress much faster than others. Some of this may be based on the age of the officials involved, the level of education, and their "globalization" (one measure of which could be their skills in foreign language(s)). NPM seems to often be viewed here as "a transparency tool" rather than as "an efficiency tool."

I guess it would depend on how one constructs "the same situation" -- it would seem to be more than just job situation, but include personal perspectives. Which is why, I think, transparency-enhancing mechanisms need to work at more levels than mere heightened visibility of the decision-making processes.

NPM seems to not address this issue, it seems NPM has an institutional bias, if I may, that contracting out and other characteristics often associated with the NPM theme are inherently, in themselves, good. I'm not sure how many studies have examined the individual elements often included in NPM without particular reference to others. Can we piecemeal NPM this way, or is NPM's affect greater than the sum of its parts?

Robert J. Dickey, Kyongju University, S. KOREA

28. A recent case in Denmark may be of interest to the discussion on NPM and corruption. Denmark has been in the top two on the Transparency International Index for non-corrupt countries in the world for a number of years (altering with Finland for the top position).

In 2002, a huge scandal has evolved in the local government of Farum in Denmark. Money was paid under the table in connection with the soccer stadium construction. The mayor has obtained bank loans without the consent of the local council among other things.

Farum is a former candidate for the Best Run Local Government in the World in competition with Phoenix, AZ and Christchurch, NZ. Farum has contracted out kindergartens, elderly homes, administrative services and other services to private providers. Farum has had sale-and-lease-back arrangements where wastewater facilities and school buildings were sold to private investors and leased back. Farum has used PPP's to construct a brand new 3500 seater indoor sports arena and a 12000 seat soccer stadium. For years, Farum has been hailed as one of the local government that was carrying out most NPM-type reforms in Denmark.

The results so far in 2002: 1) the mayor has been expelled from office. He is now facing criminal charges. 2) The local tax will be increased in 2003 by 3,2% !!! (bear in mind that Danish local governments are very powerful tax collectors and are responsible for service delivery for citizens). The average citizen will next year pay 18000 DKK (circa 2500 USD) more in taxes because of the mismanagement. 3) The Danish Ministry of the Interior has put Farum local government under administration - the local council cannot decide its own economic fate anymore. There are many more stories connected to the scandal (including the local government financing red wine for the mayor and his friends for 800 USD a bottle!!!).

Currently, there are more than three investigations into the scandal, including a police investigation, a team of lawyers looking into wrongdoings by the local government and a Parliamentary Investigation Commission which will examine the wrongdoings from a broader public administration / good governance perspective (the Commission's work is likely to go on for the next couple of years before reaching a conclusion).

The case is interesting because of the new national government (voted in 2001) has been promoting competition and ppp's, and is, in effect, taking Denmark down the market-type mechanisms' road that other countries, like New Zealand, has tried before.

The question of whether the mismanaging is due to NPM-type reforms, or simply a matter of traditional power politics is a matter for debate (and focus of my current research on contracting in the public sector in Denmark together with a colleague from Denmark). The mayor had been in power for more nearly 20 years. He had enjoyed a comfortable majority in his local government, and had a lot of personal charisma. He was expanding his local empire to the local soccer club where he was also involved. In one perspective, it is the old story of too much power in too few hands for too long time (power corrupts in the end....). At the same time, the mayor was pushing hard for NPM and PPP reforms and wanting to tell the world about it too (Farum attracted a lot of visitors from the other Nordic countries and the rest of the world).

The main culprit in regulation is the State Regulatory Council responsible for overseeing the local governments' activities. This regulatory body has not lived up to its responsibility. One reason is that the regulatory body has not been geared towards NPM-type reforms, but has been focusing on traditional legal control.

It's probably too early to estimate the full effects of the Farum scandal. But I think it shows that even in traditional non-corrupt countries like Denmark, systematic NPM reforms can lead to unwanted behavior - which have now turned into the biggest local government scandal in the history of Danish public administration/public m

Carsten Greve, Vice head, Department of Political Science, University of Copenhagen

29. The Krugman piece is terrible -- another case of sloppy, simplistic journalism. And it doesn't tell us anything we don't already know. Of course politics matters in any circumstance of management choice or reform. I doubt that any participant in this dialogue would argue that efforts to reduce or eliminate corruption could be successful without serious involvement of politicians. To argue this would be incredibly naive.

With regard to Dan Williams' point about my comment -- Dan, thanks for your contribution. I see no conflict or contradiction between what I wrote and your view. And I want to thank George Fredrickson for his contribution. What George has advanced constitutes a much broader criticism of contemporary public management reform trends than what was on our plate previously in discussing NPM and corruption. I welcome the opportunity to broaden the scope of the dialogue, recognizing the risks inherent in this venture.



Many dialogue participants may agree with or wish to dispute what George has written, in its entirety or point by point. What I wish to note is that whether we like it or not, many government management policies and practices have changed around the world, roughly along the lines or in the direction of neo-managerialism or NPM. There are many explanations for why this has occurred. My point is that the change is a worldwide trend and it has emerged over the past twenty years or so. This trend is not something new, and the pace of change does not appear to have slackened. Experimentation with new management methods continues in many nations; Switzerland is one example discussed in this dialogue.

Therefore, I would ask, if there is so much that is wrong with these methods, as Fredrickson suggests, then why are they so prominent, why has implementation persisted for so long, and why has implementation continued under both "conservative" and "liberal" governments? Is it simply that politicians have found a way to aggrandize themselves by advocating reform? Is it because we have educated a new generation of public managers in better management practices, or increased risk propensity on the part of managers and politicians? Is it the result of political and managerial response to public dissatisfaction with government performance in the post-Watergate era? Why have NPM-oriented reforms become so prevalent and prominent in government change initiatives around the world?

In the late 1980s and early 1990s scholars tended to "discover" and concentrate their focus on only a few nations as examples of NPM-oriented reform, e.g., in the UK under Margaret T, the US under Ronnie R, in Sweden (where these reforms began in the 1970s), and in New Zealand and to an extent, in Australia. However, now we find examples of neo-managerialism in practice throughout Europe and North America, Latin America, Africa, Australia, Southeast Asia and elsewhere.

Whether critics of this trend like it or not, the world has changed and it is unlikely that the prominent paradigm of public management ever will return to what many refer to as "traditional public administration." I assert that what we are witnessing is the evolution of a new paradigm of public administration and management -- one that is driven by politicians and managers -- and observed by academics and other critics. The evolution is in progress and I doubt anyone knows where it will lead in the next ten or twenty years.

Does the new paradigm increase or reduce the opportunity and payoffs from corruption? I doubt that we can answer this question without conducting analysis on a case-by-case basis. As Williams suggests, many reform initiatives may not have any effect on the level of corruption that exists before changes are implemented for a variety of reasons.

Larry Jones

### 30. Subject: Department of Energy contracting

The New York times ran an article in today's paper, Sunday, November 24th, outlining the history of contracting at the Department of Energy, which has throughout its history relied almost exclusively on contract labor. The results have been abysmal; it has taken

the agency 13 years to admit that there have been major failures, despite repeated studies by different actors. Perpetual cost overruns and long delayed outcomes are typical results. The agency has provided NO oversight, not even visiting the sites of proposed cleanups to see what needed to be done. Even the White House, which endorses contracting, has criticized the agency as a local employment agency rather than a toxic clean up program.

The poor results are not typical of all federal agencies, but are so expensive, involve so many jobs--over a hundred thousand--and have gone on so long, with no supervision, that they invite investigation. Proponents of contracting in particular need to understand this case, as must those investigating the nexus of contracting and corruption and those studying why and how contracting and lack of evaluation and supervision have come together.

Irene Rubin

31. Having followed the discussion I would like to introduce to you a kind of model that unites some aspects that were discussed in the forum and to add some more ideas. It is not appropriate to discuss aspects such as contracting-out, decentralization, control mechanisms or ethics in an isolated way but to integrate the different aspects. Referring to our starting proposition (NPM has at least partially impact on increasing corruption), the four aspects mentioned above can create a situation of risk for increased corruption.

Research strategy: Firstly, there can be no doubt that NPM is an "umbrella" (Alex Matheson, Colin Talbot) term covering several reform strategies. Therefore, when discussing the impact of NPM on public servants (but also those who use public money) it is necessary to differentiate between the theoretical dispute about NPM and the different reform strategies in practice, chosen by politicians, consultants etc. For sure, theory does not do any harm and does not influence the corrupt or non-corrupt behavior of public servants. Instead, theory can "learn" from empirical evidence. Empirical evidence seems to be rather rare so far, although there are some "bad practice" examples. One possible research strategy could be the "Marketize, Minimize, Modernize and Maintain (4 M)"-typology developed by Pollitt and Bouckaert (2000) in order to pay attention to the specific reform concepts and reform contexts in each country. Considering the advice of Alex Matheson to cover "large scale contracting-out or big public private partnerships", one could use the 4-M-typology of Pollitt and Bouckaert and classify administrative reforms in countries in order to link implementation strategies with impact on corruption. "Conducting analysis on a case by case basis" is needed to get to the empirical substance (Larry Jones). The proper investigation of "problems and possible pitfalls of the implementation of NPM" (Klages) challenges our understanding of administrative reform and its impacts. Savoie calls them the "unintended consequences" (1998: 396) of reform.

Model:

I subsumed some aspects of the discussion under the following key words: motivation of actors, opportunity and possibility to act in a corrupt manner (see following table and the following paragraphs):

| <b>Factors</b> | <b>Reform strategy: possible effects</b>   |
|----------------|--|
| Opportunity    | a) Purchaser-provider Split and contracting-out  |
|                | b) Market for contracts - Rent-seeking behavior  |
| Motivation     | a) Change of material status-quo plus some type bureau-bashing: Alienation, insecurity and loss of loyalty   |
|                | b) Focus on getting things done - managerial values: "Cowboy attitude" - using public office for private gain  |
|                | c) Reverse effects of empowering managers : Overburden management capacity of inexperienced and untrained personnel within complex market situations |
| Possibility    | Decentralization and control: Inadequate relationship between decentralization and control mechanisms - Actors can undermine control                 |

a) Opportunity: In general, there can be no doubt that every organizational type has its own "achille ferse" (Hood 2000; Rose-Ackerman 1978), but: is a particular organizational form more vulnerable than another? I would be with Irene Rubin who states that contracting-out "increases the opportunities for corruption". It is not a question of causality but of "recognizing the risks in this venture" (Larry Jones). Painter (2000: 170) characterizes this as the creation of a "market for contracts": "because of the commercial stakes involved and the once-off culture of the decision to award a contract, the incentives and opportunities for bribery and other irregularities are particularly high, perhaps more than in the public monopoly, which is likely to be extracting more benign forms of rent". Areas of corruption are those where the government and private firms have a commercial contractual relationship. For Germany one can state that the area of public procurement, especially in the construction sector, causes the main concern, with or without NPM. Causes of the problem are also to be found in obscure and complicated tendering processes and in the political unwillingness to reform those. One needs to consider the negative effects of competition in order to understand the resulting rent-seeking behavior of those market participants who do not perceive the market as a "level playing field" (TI Sourcebook 2000). The "pure" idea of competition is the one side of the coin, "a real and impure world" (Rubin) the other one.

b) Motivation: I would like to state a couple of short comments to the aspect of motivation for corruption and the NPM-reform impacts. There is some indication that NPM-oriented reform may lead to a kind of "cowboy" (deLeon/Green 2002) or "caligula" behavior and that actors "shape their jobs as they choose, turn public affairs into private-market transactions, and public organizations into personal property" (Hood 2000: 29). One example could be the case of the mayor Brixtöfte of Farum (DK), mentioned by Kurt Klaudi Klausen. This case shows also that the NPM-corruption debate must not only focus on the behavior of civil servants but must also include the behavior of politicians, members of nonprofit and public organizations. They are all decision-makers and part of the service delivery and enabling process. The debate and research needs to touch the issue of administrative, political and nonprofit corruption because they are potential areas of risk.

Another cause, derived from the impact of NPM reform, can be seen in a feeling of alienation, caused by "bureau-bashing", material losses, or just insecurity about future perspectives (Savoie 1998). It is a kind of feeling of being betrayed by the system. Such a perception of an individual might lead to disloyal and corrupt behavior. Rose-

Ackerman calls this a phenomenon of "divided loyalties" (Rose-Ackerman 1999, S. 75). She argues that people then just look for better opportunities to make their living. That is what I would call the motivational situation or better the environment in which people have to perform. A third aspect is reverse effect of empowering managers. Empowerment might foster corruption when inexperienced and not sufficiently trained "contract managers" (Frederickson) from third sector or public organizations "all of a sudden" have to bear financial and managerial responsibility for public money in a environment of market competition, risk and uncertainty.

c) Possibility: The third aspect is about the possibility of corruption. Possibility refers to the ability of actors to undermine control mechanisms. Klages mentions "the links between decentralization and the establishment of modern controlling activities". Christensen and Laegreid (2002) investigate the possibility of undermining inadequate control and supervision mechanisms in purchaser-provider models. Additional factors are insufficient and missing control knowledge about specific subjects, memory loss due to workforce reduction within government, and increasing complexity of a fragmented public sector. "The level of expertise which seems to be available in the various bureaucracies has diminished to such an extent that they actually no longer know what they are tendering for" (Australian Parliament quoted by Painter 2000: 176).

Having just touched upon the opportunity, the motivation and possibility of corruption, one could argue that it is not only a question of change but also a question of having these three factors creating an institutional situation that might foster corruption. Each one of the three aspects can be deduced from certain NPM reform strategies but only together can they be distinguished from "old public administration" corruption.

Patrick von Maravic, University of Potsdam

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32. A first short reply to all discussants contributing to the IPMN debate on "Corruption and NPM." We are impressed and delighted by the many interesting comments and insights you have put in the IPMN listserver in the last days. Internet is really a highly productive tool with regard to exchanging views and opinions. We would like to express our thanks to all the discussants having critically contributed to our questions and propositions. Patrick von Maravic, who is currently writing under my supervision his thesis on the corruption issue, and I will make some further comments on issues and statements raised in some of the different contributions. We are looking forward to get again some feedback from you and we will certainly come back to the debate.

Once again warm thanks for your contributions!

Christoph Reichard

## **NPM AND CORRUPTION: REFORM STRATEGIES**

In attempting to analyze the impact of NPM on the behavior of public servants, it is necessary to differentiate between the theoretical NPM debate and the different reform strategies in practice. For sure, theory does not do any harm and does not influence the corrupt or non-corrupt behavior of public servants. Instead, theory can "learn" from empirical evidence. Although empirical evidence seems to be rather rare so far, there are at least some documented "bad practices" examples that show that corruption problems seem to derive from how reforms have been implemented.

There can be no doubt that NPM is an "umbrella" term covering several reform elements and strategies. NPM-type modernization varies from country to country and town to town. Administrative reform in Germany, for example, is more than the "New Steering Model" as the German variant of NPM. The New Steering Model was for some years very relevant for the local level but also there we find pioneers and laggards in municipalities. Looking at the central level it is hard to identify any serious NPM reform attempts yet. The point is that there is also an undeniable heterogeneity within countries and the NPM term as such does not cover this differentiation (Reichard 2002).

One possible analytical approach could be the “Marketize, Minimize, Modernize and Maintain (4 M)”-typology developed by Pollitt and Bouckaert (2000) in order to pay tribute to the specific reform strategies in different countries. For exploring the impact of different implementation strategies on corruption, it could be for instance helpful to analyze the process and the “rules of the game” how large-scale contracting-out or public private partnership projects have been implemented. As an example, contracting-out has been discussed as increasing the opportunity for corruption. But is this empirically true and what are the reasons for it? Contracting-out is a reform instrument that belongs to the “Marketize”-option, a strategy that is characteristic for the UK, New Zealand and Australia. Is the Marketize-option more vulnerable to increase corruption than another option? Is the German “New Steering Model” which fits into the “Modernize”-option more or less dangerous? However, the differentiation between different reform strategies and the risk they bear for corrupt behavior seems to be a first step to get to the ground of this issue and may support reformers in the selection of reform instruments.

#### Unintended consequences of administrative reform

The recent IPMN debate has shown consensus between all discussants that sufficient case study analysis is generally needed. More specifically, it is necessary to pay attention to the problems of NPM-implementation that challenge our understanding of administrative reform and its impacts. Savoie points to the following phenomenon:

“Whenever an institution makes a transition away from traditional rules, regulations, and processes, there will invariably be uncertainty and some dislocation. Far-reaching and lasting change can never be introduced without upsetting the *status quo*” (Savoie 1998: 406f.).

It is probably the most common thing in political and administrative life that policies and programs that are designed to solve a certain problem may lead to reverse or dangerous effects, which cannot be always anticipated (Hood 2000: 18). In different contexts social science has dealt with this and different terms refer to this issue. One is called the “cobra effect” referring to a policy of the Indian government trying to reduce the number of venomous cobra snakes by offering to buy them all. The consequence was that people started to breed cobra snakes and sold them to the government. In the end this intentionally good policy led to an even more severe problem of snakes. In the 1970s Crozier and Friedberg observed perverted effects in organizations. They meant the difficulty to take rational decisions in order to influence collective behavior over a longer period of time (Crozier and Friedberg 1979: 8). Their conclusion was that more freedom to act presupposes more deliberate structuring of the organization (1979: 20). In the context of NPM Savoie calls such effects “unintended consequences” of reform (Savoie 1998: 396).

There is, however, no direct and simple link between NPM and corruption. The assumption of having a causal mechanism between an analytically assumed cause (NPM) and effect (corruption) is popular but nevertheless problematic, simplifying and dangerous. It is analytically simplifying because the term NPM as such does not tell us much about actual reform contents. Secondly, such an assumption is blaming the reform for corruption and exonerating morally the corrupt person. Thirdly, it does not explain why so many public servants stay honest and loyal to their organization or go even

further and blow the whistle. Anyhow, adopting the concept of “unintended consequences” as another starting assumption to investigate the impact of administrative reform on public employees helps to approach this phenomenon from an unbiased perspective. Perceiving corruption in the NPM reform context as unintended consequence can be the prerequisite of a thorough analysis. Hood shows in his cultural approach to the analysis of unintended consequences that different organizational types (hierarchical, egalitarian, individualist, fatalist) all have their specific “Achilles’ Heels” (2000: 28).

### Several causes of corruption

The discussion on ethics, values and moral behavior quantitatively dominates the current NPM debate on corruption. This one-sided approach is not really helpful to explain the actual complexity of corrupt behavior (Hondegheem 1998). It is necessary to explore the relations between the motivation to act corrupt, the opportunity for corruption and the possibility to undermine control mechanisms. The literature of challenges to the public sector on the one hand and reform consequences on the other hand shows that the debate is much more heterogeneous and differentiated as it is often assumed. Löffler lists four external challenges for the traditional public service (2000: 142f.):

- New forms of interaction and new accountability relations due to purchaser-provider models and Public-Private-Partnerships
- More discretion in taking decisions and more flexible approaches with regard to questions of personnel and budget
- Fragmentation of a former relatively homogenous administrative structure
- Disappearance of a homogenous public service culture

These challenges cover organizational and cultural changes within the traditional bureaucracy, which need to be taken as given. What are possible consequences of these challenges for corruptive practices? Are the socio-psychological side effects of administrative reform such as uncertainty, insecurity, dissatisfaction, or alienation of employees a reason to foster corruption? Is the increased scope of public procurement another reason? Has the intensified interaction between the political, administrative and private sphere resulting from contracting-out or public private partnership increased the opportunity for corruption? Is the growing quantity of public, private and non-profit organizations that deliver public services an additional factor of corruption? How effective are control activities in the case of increasing structural decentralization of the public sector? Is there any evidence for control deficits? The list of questions shows that the causes of corruption cannot be reduced to ethical or moral problems. There are some more causes that will be described more detailed in the following.

### What is the motivation for corruption?

There is some indication that NPM-oriented reform may lead to a kind of “cowboy” (deLeon and Green 2002) or “caligula” behavior and that actors “shape their jobs as they choose, turn public affairs into private-market transactions, and public organizations into personal property” (Hood 2000: 29). A prominent example is the case of the mayor of the municipality of Farum in Denmark who was internationally well

known as an NPM-reformer but recently was sentenced because of illegal corruptive practices. This case became known as “The Farum Municipality – a private company” (Beck-Jorgensen and Bozeman 2002: 75). Interestingly enough, the two researchers investigated the reforms of Farum before the scandal became public. They did this with special regard to the question whether privatization and contracting-out tend to erode public values (2002: 65). According to them, the strong mayor was “running the municipality as an absolute monarch” (2002: 75). There was no effective democratic control by the elected city council, the contracting-out decisions were made in a non-public way, and the one-sided preference of “efficiency values” had serious effects on the ethical correct behavior of the decision-makers (2002: 74).

Another argument deriving from NPM reforms can be seen in a feeling of alienation caused by “bureau-bashing”, material losses, or just insecurity about future job perspectives (Savoie 1998). Bureau-bashing and its effects as one concomitant of reform implementation in some countries can be characterized as “sporadic and emotional pastime which had serious effects upon public service morale, and which was supported by painful changes in pay, promotion and discretion of officials”(Self 1993: 80). It is a feeling of being betrayed by the system. The system used to offer job and personal security for the future and now lacks these functions or has changed the way of providing it. Such an individual perception can lead to disloyal and corrupt behavior when the respective person has the opportunity to do so. Rose-Ackerman calls this a phenomenon of “divided loyalties“ (Rose-Ackerman 1999, S. 75). She argues that people then just look for better opportunities to make their living. A third aspect concerns reverse effects of empowering managers. Empowerment might foster corruption when inexperienced and not sufficiently trained contract managers (Frederickson 1999) from third sector or public organizations “all of a sudden” have to bear financial and managerial responsibility for public money in a environment of market competition, risk and uncertainty. In a situation of insecurity people tend to make mistakes, even unintentional. A potential briber takes advantage of this.

“Its the opportunity that makes thieves!”

Concerning the growing role of competition with regard to public tendering, an unintended consequence is intensified rent-seeking behavior between market competitors and the difficulty for the state to control the market. One must consider the possible negative effects of competition (e.g. imminent losses) in order to understand the resulting rent-seeking behavior of those market participants who do not perceive the market as a “level playing field”. It is therefore necessary to recognize the risks of competition. Painter characterizes this as the creation of a “market for contracts”:

“Because of the commercial stakes involved and the once-off culture of the decision to award a contract, the incentives and opportunities for bribery and other irregularities are particularly high, perhaps more than in the public monopoly, which is likely to be extracting more benign forms of rent” (Painter 2000: 170).

Possible areas of corruption are those where the government and private firms are preparing for or are already having a commercial contractual relationship. For Germany one can state that the area of public procurement, especially in the construction sector, causes the main concern, with or without NPM. Causes can also be found in obscure and complicated tendering regulations and in the political unwillingness to reform them.



The idealistic idea of competition is the one side of the coin, the practical realization the other one. The essential question is: Does contracting-out, the separation of purchaser and provider, and competition increases the opportunity for corruption? A well-known proverb says: “It’s the opportunity that makes thieves.” In the analysis of corruption it is common knowledge that “sectors where corruption flourishes are the one where the government and private firms have a commercial contractual relationship” (Meny 2000: 205; Rose-Ackerman 1978). It is evident that corruption can occur where the physical exchange of favors is possible. Awareness of public managers is an important prerequisite to take appropriate measures to reduce the risk of corruption.

The following table summarizes the different aspects of corrupt behavior, related unintended consequences and some explanation of these consequences (see table 1).

Table 1: Forms of corrupt behavior and unintended consequences (authors)

| Corrupt behavior                  | Unintended consequences                       | Unintended consequences   |
|-----------------------------------|---|---|
| <b>Motivation for corruption</b>  | (a) Cowboy behavior                           | Actors are encouraged to maximize their personal well-being on the costs of the institution   |
| <b>Motivation for corruption</b>  | (b) Alienation                                | Actors feel alienated, insecure and uncertain about their future, which undermines the institutional loyalty  |
| <b>Motivation for corruption</b>  | (c) Reverse effects of empowering managers    | Overburden of not sufficiently trained personnel with new and demanding tasks within complex market situations  |
| <b>Opportunity for corruption</b> | Market for contracts                          | Corrupt behavior is possible where public and private interests interact – these interactions increase due to “Marketize” strategies  |
| <b>Possibility of corruption</b>  | Inadequate control in a decentralized context | Inadequate relationship between decentralization and control mechanisms - Actors can undermine control because of missing control knowledge, increasing specialization and complexity |

### How to undermine control mechanisms?

The third aspect concerns the possibility of corruption. Possibility refers to the ability of actors to undermine control mechanisms because they know that the danger of being detected is rather low and the profit is high enough to forget about moral scruples. The following statements of experts shall underline this point:

- “The connection between specialization (...) and co-ordination is important. All other things being equal, increasing specialization implies a need for greater efforts at co-ordination. Otherwise the danger is that newly specialized agencies, many of which also enjoy decentralized authority, will go their own way“ (Pollitt and Bouckaert 2000: 81).
- “First, the devolution of multiple functions to single agencies, with RHA’s (Regional Health Authorities; by the author) becoming significant financial players within a context of cultural change, was not matched by the revision or adaptation of those procedures and controls (...) that would have been

considered as important balances to the potential impact of disaggregation, devolution and delayering” (Doig 1998: 146).

- “In New Zealand there is no central facility for monitoring the contracting out of public services, since such centralization would have tended to contradict the delegation of managerial authority to individual agencies and the presumed efficiency gains from the market” (Gregory 2002: 16).

Christensen and Laegreid (2002) investigate in their study the possibility of undermining inadequate control and supervision mechanisms in purchaser-provider models. If structural devolution “changes the instruments of control and increases the distance between the political leadership and subordinate units and lower levels of management” (2002: 101), it is necessary not to succumb to centrifugal tendencies that weaken the effectiveness of control (Schedler and Proeller 2000: 82). Additional problems of controlling decentralized units are an insufficient or missing controlling knowledge, the difficulty of formulating complete contracts (Pollitt and Bouckaert 2000: 81), a loss of organizational memory due to workforce reduction within government, or an increasing complexity of a more and more fragmented public sector. Several investigations support the assumption that available knowledge within government has suffered from work force reduction and contracting-out. According to a report for the Australian Parliament, public administration may face severe consequences: “The level of expertise which seems to be available in the various bureaucracies has diminished to such an extent that they actually no longer know what they are tendering for” (Australian Parliament quoted by Painter 2000: 176). This seems to be not only true for the Australian context but also for other countries such as the United States:

“Unfortunately, as government’s reliance on contracting out has increased, so too has its disinvestments in its own capacity. At one time, scholars of public administration celebrated the fact that the government employed world-class experts on virtually every issue: mapmakers, chemists, engineers, and attorneys, housing economists, agricultural analysts, food safety specialists. The government no longer has such a range of in-house expertise” (Kettl quoted by Frederickson 1999: 274).

The point is, with an increasing fragmentation of the public sector and an expanded specialization of services being provided by private or non-profit service agents in a decentralized context, governments must strengthen their enabling role in order to guarantee decentralized service delivery to the citizens.

#### More corruption risk than expected

The Danish Farum corruption case shows that the NPM-corruption debate must not only focus on the corrupt and fraudulent behavior of civil servants but must also investigate the impact of certain reform strategies on the behavior of politicians or of members of non-profit and private organizations. Research needs to touch the issue of administrative and political corruption as well as corruption in the private and non-profit sector because these are potential complementary areas of risk in the system of the “enabling state”.

The corruption case of the Focus Housing Association (Focus) in Birmingham, United Kingdom illustrates this point very clearly. The reforms taken in the Social Housing

sector at the end of the eighties by the conservative government were similar to those of the National Health Service (Pollitt et al 1998). Without going too much into the details of this case the following three cornerstones of the reform are worth to be mentioned:

- empowering housing associations and reducing the role of local authorities in the provision of social housing was a particular purpose of the reform (Pollitt et al 1998: 47)
- emphasis on private sector solutions for housing problems, large-scale transfers of stock via privatization, private finance initiative, and compulsory competitive tendering of local authority housing management services were seen as adequate measures (Reid 1999: 129)
- housing associations were expected to act as hybrid mixed economy service providers, capable of working simultaneously in both public and private sector operating environments (Reid 1999: 129)

“In April 2000, three men were sentenced to prison terms in relation to the purchase of homes from a Birmingham property dealer by Focus, the largest registered social landlord in the West Midlands. Between 1991 and 1995 the property dealer made corrupt payments to two Focus employees to ‘oil the wheels’ for the purchase of around 50 homes by Focus for £1.8 million. Focus uncovered the corruption in November 1995, as a result of an anonymous tip-off” (Comptroller and Auditor General 2000: 1). This passage is taken from the report of the investigation undertaken by the Comptroller and Auditor General of the United Kingdom. The report blames the general lack of a management culture within the organization, “a general disregard for policies, procedures, controls and the standard ways of working that they imply” and that the “staff had been allowed (if not encouraged) to have a very close relationship with developers and contractors” (Comptroller and Auditor General 2000: 15). In addition, the investigators conclude that the internal control mechanisms and those of the financing Housing Corporation were in such an underdeveloped shape that corruption would not have been discovered without the anonymous tip-off. According to Malpass, it seems to be characteristic for non-profit organizations in the social housing sector that in “many ways the model of corporate governance in housing associations remains rooted in the voluntary ethos of the small scale philanthropic and self-help organizations of an earlier era, even though the largest associations today are big businesses, some of them with annual turnovers of more than £50 million” (Malpass 2000: 6).

Focus is a so-called local public spending body (LPSB) that is “neither fully elected nor appointed by Ministers, but which provide public services, often delivered at local level, which are wholly or largely publicly funded” (Malpass 2000: 244). The judge who sentenced the two corrupt employees to prison terms said: “bribery and corruption must be foreign to public duties” (SFO 1999/2000: 30). This emphasizes that corruption in the “non-profit” sector also lies within the responsibility of the public insofar as public money is used to deliver services to the citizens.

## CONCLUSIONS

Three central aspects of the NPM debate on corruption have been discussed. This has been done to show that analytical progress is needed in order to overcome the gap between theoretical assumptions and empirical evidence. Investigations so far have

shown that corruption is not just an ethics-problem but there is much more to it. Secondly, the risk of corruption occurs in the areas where political, administrative and private interests interact. That is the reason and the two corruption cases support this point of view, why further research cannot be restricted to administrative corruption but must include political as well as non-profit and private sector corruption. Thirdly, research strategies need to be developed to pay tribute to the heterogeneity of NPM reforms and to get to the ground of the pitfalls of reform. Unintended consequences that occur due to complex transformation processes need to be treated as another object of further investigation. This is the prerequisite to overcome the traditional normative celebrating or condemning of this type of administrative reform doctrine.

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