From Greek Mythology to the Real World of the New Public Management and Democratic Governance (Terry Responds)

Larry D. Terry, Cleveland State University

I would like to thank the editors of the Public Administration Review (PAR) for this opportunity to respond to Professor Howard Frant’s (in this issue) critical review of my article, “Administrative Leadership, Neo-Managerialism and the Public Management Movement” (PAR, May/June, 1998). I also wish to thank Professor Frant for accepting the public invitation to engage in a constructive and meaningful dialogue on the New Public Management and its implications for democratic governance. Professor Frant is a thoughtful scholar, and I respect his unwavering commitment to organizational economics and public choice theory. I also acknowledge and appreciate the important contributions that organizational economics and public choice theory have made to the literature of public administration, political science, management and organization theory. All theoretical perspectives have value. I take to heart Laurence O’Toole’s (1995) sage admonition that “we should be critical of much that has been accepted, but we should treat as serious — and at a minimum as a source of insights — much of what we criticize and question...” (294). Professor Frant raises several issues that are useful in moving the New Public Management conversation forward. While I do not agree with his interpretation of my work, I am indebted to him for advancing my thinking on a subject of utmost theoretical and practical importance.

In the pages that follow, I challenge Professor Frant’s assertion that the neo-managerialist ideology described in my article “does not exist.” I also take issue with the contention that I have misinterpreted the managerialist ideology and microeconomic theories underpinning the New Public Management. I argue that Professor Frant’s steadfast defense of economic agency theory, public choice theory, and public entrepreneurship has created a blind-spot. Unfortunately, this blind-spot has prompted him to ignore or downplay some troublesome aspects of microeconomic theory and public entrepreneurship that are widely recognized in the scholarly literature.

After briefly summarizing my article to reacquaint PAR readers with its central arguments, I review Professor Frant’s critical commentary. This discussion establishes the context and a basis of my response. I then address specific criticisms outlined in Professor Frant’s essay. I make the case that his pertinacious commitment to organizational economics and public entrepreneurship has clouded his vision, prompting him to pursue a line of argument filled with puzzling assertions and contradictions.

Neo-Managerialism and the New Public Management: The Argument Revisited

In “Administrative Leadership, Neo-Managerialism, and the Public Management Movement” (1998), I argued that scholars in the public policy community used several different approaches to advance the understanding of public management research, theory, and practice. I classified these approaches broadly as quantitative/analytic management, political management, liberation management, and market-driven management (194-196). I suggested that while they differed in their basic orientation, these approaches had at least one thing in common: Each was influenced by the managerialist ideology. Drawing on the widely cited work of Christopher Pollitt (1990), I contended that the managerialist ideology (or “managerialism” as it often called) consists of a set of beliefs, values, and ideas about how the world is and how it ought to be. In brief, the managerialist ideology suggests that “management is important and good”; public managers would do well if they adopted “good business practices” found in the private sector (Pollitt, 1990, 7). I indicated that the managerialism discussed by Pollitt was an “updated version of the older tradition rooted in the work of Frederick Winslow Taylor” (196).

I also asserted that the Neo-Taylorist managerialism described by Pollitt has been combined with organizational economics (agency theory and transaction-cost economics) and public choice theory. The result has been the emergence of a new form described as “neo-managerialism” (196), which underpins the various public management approaches and is especially prominent in liberation and market-driven management, the standard-bearers of the New Public Management.

After discussing the core theoretical attributes of neo-managerialism, I turned to Donald Schon’s (1963) notion of the “conservative displacement of concepts” to advance the argument. I suggested that since neo-managerialism draws on — or “conservatively displaces” public choice theory, agency theory, and transaction-cost economics — it has inherited many of their assumptions. I described these assumptions as follows:

Public choice theory and organiza-
Second, I argued that the neo-manageralist version of the public entrepreneur embodies problematic values and behavioral assumptions. This model of the entrepreneur is strongly influenced by assumptions drawn from organizational economics and public choice theory. Such assumptions offer an incomplete, distorted view of human nature. Building on the arguments of such prominent scholars as Herbert Simon (1998), I asserted that "human beings are more than rational economic actors driven by greed and self-interest" (198). This negative model of the public manager is counterproductive because it merely contributes to the "dangerous anti-government sentiment that is so pervasive in the United States" (198).

A notion that runs through my article is that ideas and the values and assumptions underpinning them matter; they influence the behavior and actions of public managers. Frant’s spirited critique leads me to conclude that he believes otherwise. I now examine his commentary.

**Frant’s Chimeras**

Professor Frant turns to Greek mythology to strategically craft his arguments (see Stone, 1988). By evoking images of the “chimera” — a mythical fire-breathing she-monster with a lion’s head, a goat’s body, and a serpent’s tail — he seeks to persuade the readers that my imagination has run amok. Much like Bellerophon, who killed that grotesque she-monster, Frant yearns to save the day by attacking my understanding of the New Public Management in general and organizational economics and public entrepreneurship in particular.

He wastes little time staking out a position, confidently stating at the outset that the neo-managerialism described in my article “does not exist.” “Terry” he says, “misinterprets the theories he describes which are extensions of traditional concerns in public administration.”

Frant picks up the pace of his criticism by zeroing in on my discussion of neo-managerialism. He has difficulty with the contention that neo-managerialism combines “old managerialism” with organizational economics and public choice theory. He states that the “neo-managerialism presented by Terry…is a strikingly bizarre ideology, for its two main pillars, the managerialist pillar and the economic pillar, stand in direct contradiction to each other.” In his view, I have totally missed the mark in understanding the New Public Management because I “treat the positive statements of organizational economics, about how managers might behave, as normative statements, about how they should behave” [emphasis in original]. He claims that I erred in “trying to combine organizational economics and managerialism into a single normative philosophy.”

Frant decries my failure to “quote any exponents of organizational economics,” namely Jensen and Meckling (1976) and Williamson (1985). He also states without hesitation that it is difficult to find any proponent of agency theory who supports the idea that managers are [quoting from my article] “opportunistic, deceitful, self-serving, slothful, and adept at exploiting others.”

Finally, he challenges my conception of the public entrepreneur, professing to believe that public entrepreneurs, especially those of neo-managerialist persuasion, are not “self-interested, opportunistic innovators and risk-takers who exploit information and situations to produce radical change.” According to Frant, this portrayal of the public entrepreneur is yet another symptom of an imagination wildly out of control. His reading of the literature yields a different interpretation: Public entrepreneurs are primarily “motivated by a conception of the public interest.”

Professor Frant’s spirited critique is intellectually stimulating and interesting to say the least. Unfortunately, as noted earlier, it is filled with puzzling assertions and contradictions, which I now undertake to examine.
The Real World of the New Public Management

The reader will recall Professor Frant's confident statement that the neo-managerialism described in my article "does not exist;" it is a "strikingly bizarre ideology because the managerialist and economic pillars stand in direct contradiction to each other." I am bewildered by this accusation for several reasons. First, my description of the New Public Management and its neo-managerialist underpinnings is consistent with that of prominent scholars who have written extensively on the subject. For example, Christopher Hood (1991) explicitly states that the New Public Management is a combination of managerialism, organizational economics, and public choice theory.

One way of interpreting NPM's [New Public Management's] origins is as a marriage of two different streams of ideas. One partner was the "new institutional economics." It was built on the now very familiar story of post-World War II development of public choice, transaction cost theory, and principal-agent theory... The other partner in the "marriage" was the latest of a set of successive waves of business-type 'managerialism' in the public sector, in the tradition of scientific management. This movement helped to generate a set of administrative reform doctrines based on the ideas of "professional management" expertise as portable, paramount over technical expertise, requiring high discretionary power to achieve results (free to manage) and central and indispensable to better organizational performance, through the development of appropriate cultures and the active measurement and adjustment of organizational outputs [emphasis in original]. (6)

In their authoritative book on New Zealand's public-sector reforms, Jonathan Boston, John Martin, June Pallot, and Pat Walsh (1996) also argue persuasively that the New Public Management fuses managerialism and microeconomic theory. Boston and his colleagues state that "one of the most distinctive and most striking features of New Zealand's public management reforms was the way they were shaped by certain bodies of economic and administrative theory. Particularly influential in this regard were public choice theory, organizational economics-especially agency theory and transaction-cost economics (TCE)—and managerialism...[emphasis added] (16).

Finally, Donald Kettl's (1997) probing and insightful essay on the New Public Management leaves little doubt that "managerialism" (447) and 'microeconomic theories' (455) are the "driving ideas" behind global governmental reform efforts.

Frant correctly points out the contradiction between managerialism and microeconomic theories, but there is nothing earth-shaking about this. Attentive observers of the New Public Management often comment on such contradictions. Again, we hear from Hood (1991; see also Kettl, 1997 and Boston, et. al, 1996, esp. ch. 2): "Whether the partners [managerialism, organizational economics, and public choice theory] were fully compatible remains to be seen. Free to manage is rather a different slogan than 'free to choose.' The two can conflict, particularly where the NPM revolution is led from above...rather than from below" (8).

Frant's argument concerning the contradictory and "bizarre" nature of the neo-managerialist ideology is, in and of itself, something to ponder. He caricatures in his condemnation of my (and leading scholars') description of neo-managerialism. On one hand, he says that the economic and managerialist theoretical pillars contradict each other. On the other hand, he suggests that organizational economics and managerialism can be reconciled, for "there is less contradiction...than might appear." To borrow a phrase from the popular culture: What's wrong with this picture?

Frant's assertion that I erred in "trying to combine organizational economics and managerialism into a single normative philosophy" is also puzzling. As previously noted, he accuses me of treating "positive statements of organizational economics, about how managers might behave, as normative statements, about how they should behave." This line of argument is especially baffling because Frant is speaking of the New Public Management whose scholarly writings have been largely a normative enterprise. In fact, he himself explicitly states that this is the case. For the volume edited by Lawrence R. Jones, Kuno Schedler, and Stephen Wade, International Perspective on the New Public Management (1997), Frant contributed a chapter entitled "The New Public Management and the New Political Economy: Missing Pieces in Each Other's Puzzles" (71-88). In a discussion of governmental reform strategies, he makes the following statement: "The new political economy literature...fits badly in its main preoccupation with the new public management literature. The latter has been unashamedly normative. Its purpose is to tell managers how to make public organizations work better" (76) [emphasis added].

Keen observers will readily recognize that Frant's argument regarding the distinction between positive and normative economics is merely diversionary. He finds little protection behind the positive economics shield. The argument is fraught with difficulties when viewed from the perspective of the New Public Management. Let me clarify this point.

Proponents of positive economics, most notably Milton Friedman (1953), forcefully argue that it is an "objective," value-free discipline. In Friedman's words, positive economics is "independent of any particular ethical position or normative judgement...it deals with 'what is' not 'what ought to be.' Its task is to provide a system of generalizations that can be used to make a correct prediction about the consequences of any changes in circumstances. Its performance is to be judged by the preci-
sion, scope, and conformity with experience of the predictions it yields. In short, positive economics is, or can be, an 'objective' science, in precisely the same sense as any of the physical sciences' (4).

Friedman and his followers 'treat behavioral assumptions as a matter of convenience,' adopting the position that the 'realism of the assumptions is unimportant and that the fruitful-ness of a theory turns on its implications' (Williamson, 1985, 44; see also Friedman, 1953, esp. ch. 2). In other words, behavioral assumptions do not matter; explanations and predictions are what really count.

Unfortunately, by raising the positive-normative economics question, Frant drives into an intellectual cul de sac. The New Public Management is not an "objective," value-free enterprise nor is it concerned primarily with explanation and prediction. Advocates of the New Public Management are clear about what the goals of the state should be, and how to achieve them (see Box, 1999 and Cohn, 1997). Moreover, the idea drawn from positive economics — that behavioral assumptions do not matter — is problematic. Scholars of several disciplines have questioned the wisdom of this claim (see, for example, Donaldson, 1990, 372 and Williamson, 1985, 44). As far as the New Public Management is concerned, the behavioral assumptions underpinning neo-managerialism do, in fact, matter; they have a powerful influence on governmental reform efforts around the globe (Aucoc, 1996; Boston, Martin, Pallet, Walsh, 1996; and Hood, 1991, 1995a, 1995b).

Frant is disturbed by the fact that while I cite Jensen and Meckling (1976) and Williamson (1985), I fail to "quote any exponents of organizational economics." This is true. But what is debatable is Frant's bold assertion: "I do not think that an agency theorist can be found that says what Terry claims they say: that managers are [quoting from my article] opportunistic, deceitful, self-serving, slothful, and adept at exploiting others." Since he cites Williamson (1985), I assume that his comments apply to transaction-cost theorists as well. This statement is perplexing for two reasons: First, agency theorists are often concerned with what they call "agency loss" that is, the degree to which the desires of the principal are unrealized or unfulfilled by the agent (Jensen and Meckling, 1976). In the world of organizational economics, agency loss does not occur because rational actors (in this case, public managers), are driven by altruism or a profound sense of community. No indeed! Champions of organizational economics speak a matter-of-fact language: Agency loss occurs because the purposes and objectives of the principal and agent diverge due to self-interest. In the lexicon of organizational economics, self-interest often means shirking and opportunism. Thus, given the "narrow model" and "negative evaluation" of human behavior (Donaldson, 1990, 371 -372), it is reasonable to conclude that agency theorists embrace the idea that rational actors are "opportunistic, deceitful, self-serving, slothful, and adept at exploiting others." If this were not so, why would the term "moral hazard" (see Donaldson, 1990; Williamson, 1985; Moe, 1984; Petrow, 1986) have intellectual currency among organizational economic theorists? Why would agency theorists be interested in developing policing mechanisms (Mitnick, 1975) to ensure that the agent adheres to the principal's desires? The answer to these questions is clear given the behavioral assumptions of organizational economics.

Another reason Frant's statement is so puzzling is that Oliver Williamson (1985), one of the scholars I was admonished for not quoting, forcefully argues that rational economic actors are driven by self-interest and opportunism. In discussing self-interest—a core behavioral assumption of economics—he asserts that "opportunism" is an important concept in transaction-cost economics. According to Williamson, opportunism means "self-interest seeking with guile" (47), that is, with deceitfulness and dishonesty. He goes on to say that opportunism "includes but is scarcely limited to more blatant forms, such as lying, stealing and cheating... opportunism refers to the incomplete or distorted disclosure of information, especially calculated to mislead, distort, disguise, obfuscate, or otherwise confuse" (47). Most readers would agree that Williamson's comments raise questions about the validity of Frant's criticism.

Finally, Frant challenges my conception of the neo-manageralist public entrepreneur. He contends that the "[i]mage of managers in the public entrepreneurship literature is of people motivated by the public interest." Again, I am puzzled by his bold pronouncement. Contrary to what he would have the readers believe, the scholarly literature does not always portray public entrepreneurs as individuals motivated by the public interest. There is an ever-growing body of literature that raises the nagging issue of democratic accountability and ethics (see Cohen and Eimicke, 1998; Gawthrop, 1998; Frederickson, 1993; Kearns, 1996; Moe, 1994). There are certainly good reasons why this is so. One need only read Eugene Lewis's (1980) account of the organizational lives of J. Edgar Hoover, Hyman Rickover, and Robert Moses or follow Kevin Kearns (1996) insightful discussion of Robert L. Citron and the Orange County, California bankruptcy case to be disabused of the idea that public entrepreneurs are primarily motivated by the public interest. Even Doig and Hargrove (1987), leading advocates of public entrepreneurship, cast doubt on Frant's claim when they say that public entrepreneurs are "egotistical" and "self-centered." (11). This is not an atypical view (see Stevens, 1988; Moe, 1994). Unfortunately, Frant does not acknowledge the concerns either of public entrepreneurship's supporters (Bellone and Goerl, 1993; Cohen and Eimicke, 1998; Gawthrop, 1998;
Roberts and King, 1996) or critics (Moe, 1994; Reich, 1990; Stevens, 1988; Terry, 1990, 1993). One can only speculate on the reason.

The New Public Management and Democracy: May the Conversation Continue

Theodore Lowi (1993a), an astute observer of the body politic, argues that "law has been replaced by economics as the language of the state" (156). Although Lowi and I have not always seen eye-to-eye in the past (see Lowi 1993b and Spicer and Terry, 1993), I must concede that the language of the New Public Management supports him on this score. As we approach the twenty-first century, the language of economics undoubtedly dominates the conversations regarding global governmental reform. But such dominance must not go unchallenged by those of us who are committed to democratic politics and administration. We must constantly remind champions of the New Public Management that while economy and efficiency are important values, one must not lose sight of the fact that responsiveness, equity, representation and the rule of law are highly prized in the U.S. constitutional democracy.3 We must remind them that while business gurus such as Peter Drucker, Theodore Levitt, Thomas Peters, Joseph Bower, Henry Mintzberg, Alfred Chandler, Peter Senge, and Shoshana Zuboff have important things to say (Thompson, 1997, 3), the words of the so-called "traditional public administration" scholars should not fall on deaf ears. Traditionalists like Dwight Waldo, Paul Appleby, Norton Long, Arthur McMahon, Wallace Sayre, and Philip Selznick (see White and McSwain, 1990) must be seriously considered in conversations about the New Public Management. Proponents must be reminded to carefully consider their attempts to minimize the differences between the public and private sectors. The blind application of business management principles and practices can undermine the integrity of public bureaucracies and so threaten our democratic way of life (see Terry, 1995). Finally, we must remind those who march under the banner of the New Public Management that ideas and their underlying values and assumptions matter; they do have consequences.

Notes

1. As noted earlier, I actually stated that the managerialism embodied in the New Public Management is an updated version of an older tradition as reflected in the works Frederick Winslow Taylor.
2. I have benefitted from Donaldson's (1990) critique of organizational economics.
3. Walter J.M. Kickert (1998) wisely points out that scholars outside of the United States and in Europe are engaged in the managerialism versus democratic governance and accountability debate. A symposium that examines this debate from a global perspective would contribute much to public administration theory and practice.

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Public Administration Review • May/June 1999, Vol. 59, No. 3

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