

**THE ROLE OF THE NEW ZEALAND STATE
IN ENVIRONMENTAL POLICY: FROM
"STATE VANDALISM" TOWARDS
A "MARKET LED" ENVIRONMENT?**

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Introduction.

Prior to 1984, the New Zealand State, according to many environmentalists, had a dismal record in managing the environment, and was directly responsible for much environmental degradation ("State vandalism"). The principal reason for that record was seen by many as lying in the direct involvement of the State in the ownership, allocation and management of resources. Since 1984, the role of the State in the management of resources has been redefined dramatically, largely under the influence of "New Right" philosophies embraced by successive governments. In this paper the principal features of the change in environmental policy will be analysed in the context of the broader State sector reforms, in particular, the shift towards market-led resource management, the drive towards greater efficiency, and the development of new frameworks for social choice. The implications of these changes are assessed in terms of environmental policy direction, the integration of economic and environmental policy-making, and implementation problems. Conclusions are drawn about the difficulties and limitations of the drive towards a market-led environmental policy in New Zealand.

Reshaping and Rolling Back The State.

When the fourth Labour government came into power in 1984, no one expected the kind of radical transformation of the State that was to follow. Although Labour's election manifesto contained many promises for change, notably also in the area of environmental administration, it did in no way foreshadow the comprehensiveness, incisiveness, and speed of the ensuing reform programme. Even less expected was the whole-heartedness with which the new Labour government embraced "New Right" principles as a basis for the reforms.

Although this paper will not venture into explaining why the fourth Labour has taken this route, it is important to note that the reasons for the environmental reforms cannot be exclusively traced to the efforts of environmental groups, nor to government commitment towards the environment. Instead, the reform process should be seen in a broader context which encompasses New Zealand's declining position in the global economy, the failure of Keynesianism to cope with economic stagnation, the influence of New Right ideas on people within Treasury and key members of the government, the strategic position of Treasury within the policy process, and changes within and among social classes (composition of working class; shift in balance of power from labour to capital; growing power of financial fraction within capital) (Roper, 1991; Easton, 1990; Jesson, 1987, 1989).

Although Treasury played a key role in the reform of the State sector, it would, however, be too simplistic to attribute all the credit or blame to that agency. For the reform to be able to take place, political support was vital. Whereas Treasury was very much the "think tank" behind the push for reform, it was given political clout by a core group of ministers within Cabinet who shared the New Right views of Treasury. In particular, a cohesive group of half a dozen "free marketeers" within Cabinet, with a "troika" of ministers responsible for the finance portfolio (Roger Douglas, David Caygill, and Richard Prebble) at its centre, played a crucial role in setting the agenda for reform within Cabinet. Despite significant opposition from within the Labour Party that saw much of the reform as a betrayal of traditional Labour Party principles, and as an undoing of the policies and achievements of previous Labour governments, this coalition of Treasury and Cabinet forces was able to hijack the policy process (Jesson, 1989).

Ideologically, these developments converged in the New Right view that the State was part of the problem, rather than the solution. Theories of government failure were, of course, not endogenous to New Zealand, but had already been developed overseas, notably in Great Britain and the United States (King, 1975; Wolf, 1979; Hayek, 1982; Brittan, 1983; Rose, 1984; Self, 1985; Le Grand, 1991). In New Zealand, some of these theories, notably from the Chicago School of Economics, as well as public choice theory, agency theory and transaction-cost analysis, were embraced by

Treasury as underpinnings for the reforms that it advocated (Easton, 1990; Boston and Cooper, 1989; Boston, 1991).

Highly simplified, the prevailing approach of Treasury and New Zealand governments since 1984 can be characterised with the slogan that was adopted by the National party in the 1949 elections: "less government in business, more business in government" (Mascarenhas, 1982, p.42).

Five areas of reform embarked upon since 1984 can be identified which have particular relevance for environmental policy and management. These are:

- (1) The corporatisation, and in a number of cases subsequent privatisation, of the commercial operations of government;
- (2) The reform of the public service, in particular the reorganisation of environmental administration;
- (3) A move away from regulation towards incentives and "market instruments" in policy implementation;
- (4) The reorganisation local government;
- (5) A comprehensive reform of environmental statutes, notably the introduction of the Resource Management Act.

Although these reforms had their starting point under the fourth Labour government, they were in several respects not completed by the end of its second term in 1990, and found continuation under the National government elected that year. Given the scale and depth of these reforms, many of their implications have not yet crystallised.

In this paper, only the first three areas of reform will be discussed (the other two reforms are the subject of the paper presented by Prof.R.V. Bartlett). The focus of this paper will be on the extent to which the reforms signify a shift towards a reliance on "the market" in the management of

environmental resources and problems, and on the environmental policy implications of that shift.

Getting the Government out of Business: The Corporatisation and Privatisation of State Assets.

Although involvement of the State in economic development is not peculiar to New Zealand, it has been argued that the reasons for it were different from those for State intervention in European countries. Historically, State intervention in New Zealand was more inspired by pragmatic than ideological grounds ("socialism without doctrine"), and resulted from the need to create an infrastructure for the development of a resource rich, but undercapitalised and underpopulated colony by white settlers. Since its early colonial beginnings, the New Zealand State facilitated the development of resources by, for instance, the construction of railways and roads, the development of telecommunications and electricity, and the establishment of a legal and administrative order within which property rights could be allocated, transferred and protected, resources exploited, and markets operate. The State also played a key role in the acquisition and distribution of land for settlers, raising (overseas) capital to finance development, the provision of insurance, and in assisting exports (Condliffe, 1959; Hawke, 1985; Mascarenhas, 1982).

On the basis of this pragmatic approach, however, the State in New Zealand also got involved in many activities beyond building an infrastructure, such as providing state houses, the establishment of industries, the promotion of tourism, and the development of a welfare state. Services were provided and industries set up where the private sector was reluctant to enter (avoiding risks), or to compete with private sector enterprise in order to protect the public from exploitation (the "yardstick theory of public enterprise", Mascarenhas, 1982). At a time, 1898, when British governments still relied on the "invisible hand" of the market, the New Zealand government introduced the world's first pension scheme. The leading role of New Zealand in this area was confirmed by the introduction of Labour's comprehensive social security legislation in 1938, and was also reflected in the doctrine of a "living wage".² Despite the ideological differences amongst

them, both Labour and National governments took, up to 1984, a "hands on" approach to the role of the State in promoting and directing development.

However, the expansion of the role of the government in New Zealand, as elsewhere, also led to difficulties. Since the early 1970s big government became problematic in terms of expenditure ("burden on the economy"), but also with regard to such issues as effectiveness, efficiency, and accountability. The growth of government came under scrutiny, and led to the development of theories about "government failure" as referred to above. In New Zealand, Treasury played a key role in disseminating such theories, and in advocating fundamental reforms of the State sector (Treasury, 1984, 1987).

One major plank of the reforms advocated by Treasury, and adopted by the fourth Labour government, was the corporatisation of the commercial operations of the State. In 1986, with the introduction of the State Enterprises Act, nine State Owned Enterprises (SOEs) were established for the purpose of running State trading activities on a commercial footing, with minimal political interference.³ Political meddling in these activities in the past was regarded as an important reason for poor decision-making and performance from a commercial point of view. The mission of the new SOEs became to operate primarily as commercial businesses. Although the government retained ownership and ultimate control of these companies, by being formally entitled to modify their statements of corporate intent and by setting expected rates of return on invested capital, the managers were given full freedom with regard to decisions on inputs, pricing and marketing (McKinley, 1987; Mascarenhas, 1991).

Although it may not have been the original intention of the fourth Labour Government, it appeared that corporatisation was a stepping stone towards privatisation.⁴ After corporatisation, a process of deregulation followed to put SOEs in a "competitively neutral" environment (so that they no longer enjoyed special government support or advantages), before a number of them were sold. This step took the principle of getting the government out of business to its logical conclusion.⁵

To some extent, the move towards corporatisation was supported by the environmental movement. In the eyes of many environmentalists, the New Zealand State has been directly responsible for much environmental degradation as a result of its involvement in resource allocation and development. Land development policies caused large scale deforestation, often on land vulnerable to erosion. Government subsidies contributed to the drainage of wetlands, and an intensive use of pesticides and inorganic fertilisers, also on land considered to be marginal or uneconomic in terms of productive potential. The State's involvement in energy projects led to the despoliation of natural and scenic values, for instance, of lakes and rivers, as a result of the construction of hydro-dams ("State sponsored vandalism", Salmon, 1960). More recently, the State has been put responsible for the highly inefficient use of energy resources in New Zealand (Fitzsimons, 1981; McChesney, 1991). For many environmentalists, the State has been the main culprit of environmental degradation. Government departments were perceived as "tuned entirely towards complete economic exploitation of every available natural resource, as rapidly as possible" (Salmon, 1960, pp.15-16).

One of the criticisms of environmentalists on the way environmental decisions were made relates to the "dual mandates" held by government agencies. Government departments such as the New Zealand Forest Service, the Department of Lands and Survey, and the Ministry of Works, combined a development role with environmental responsibilities. The NZ Forest Service, for instance, was responsible for the protection of indigenous forests, but was also involved in converting native forests into exotic plantation forests for commercial purposes. The Department of Lands and Survey carried responsibility for National Parks and the management of other Crown land of environmental significance, whilst at the same time promoting the development of Crown land. The Ministry of Works was, among other things, responsible for the protection of wild and scenic rivers, but at the same time for building dams and issuing rights for using water. The rationale, advanced by governments, for combining apparently conflicting responsibilities into one agency was that in this way the integration of development and conservation interests in the making of policies and management of resources was guaranteed.

Environmentalists, however, saw this as a case of "goats minding the cabbages". Conflicts between these two types of responsibilities were resolved within the agencies, in the absence of clear criteria for the relative weight given to competing values, and allowing a high degree of discretion in the decision-making process. According to environmentalists, environmental considerations lost out consistently, as performance was primarily measured in terms of development values, and affected by professional bias in the same direction (Royal Forest & Bird Protection Society, 1982; Salmon, 1984).

The solution sought by environmentalists for the problem of "State sponsored vandalism" and dual mandates lay in a reform of environmental institutions, notably in the establishment of a strong Ministry for the Environment that would combine many of the regulatory and conservation functions that were dispersed over a wide range of government agencies, and through an institutional separation of conservation and development responsibilities. Overall, environmentalists did not seek to *reduce* the role of the State in the management of resources, but to separate development and environmental responsibilities amongst agencies, and to alter the balance of forces within the machinery of government by strengthening agencies with an environmental advocacy role (Royal Forest and Bird Protection Society of N.Z. et al., 1982; 1985).

Although the changes advocated by environmentalists were not inspired by a desire to reduce government intervention, their solutions proved to a large extent congruent with, and even a catalyst for, the reforms advocated by the "New Right". Treasury was very receptive to the argument put forward by the Native Forest Action Council that many of the practices of the New Zealand Forest Service did not make any economic sense (Grant, No date). It was also a strong advocate of allocating conflicting tasks (such as development and protection of resources) to separate agencies, an idea supported by environmentalists. Some environmentalists entered into an "unholy alliance" with Treasury for the purpose of overcoming bureaucratic opposition against the a reform that various departments rightly saw as a threat to their very existence.

The area of environmental administration was the first sector in which the principles of reform advocated by Treasury and adopted by the Government were pioneered. The conservation functions of the NZ Forest Service, the Department of Lands & Survey, and various other government agencies were brought together into a new Department of Conservation, whereas the commercial operations of these departments were vested in new State Owned Enterprises, Forestry Corp and Landcorp.

Although the establishment of the Department of Conservation has been interpreted as a major victory for environmentalists, the environmental implications of the corporatisation or privatisation of State trading activities are far from clear-cut. The rationale for the setting up of SOEs was that their activities are primarily commercial, and that political interference in these areas had led to poor decisions and inefficiency in the allocation and management of resources (Treasury, 1984, 1987). It can indeed be argued that, if this approach had been adopted earlier, it would have been highly unlikely that the "Think Big" energy projects adopted by the National government, and widely acclaimed by environmentalists and economists as disasters, would ever have got off the ground. The fact that the government has got out of business in these areas has, so runs the argument, avoided the continuation of poor decision making in the allocation and management of resources.

Implicit in this argument are at least three assumptions. First, the assumption that resource management on the basis of market principles leads to superior decision-making, also in terms of environmental implications. A second assumption underlying the separation between commercial and non-commercial operations is that resources can be conveniently split into private and public goods, or into environmentally sensitive and insensitive categories. A third, somewhat contradictory, assumption could be added to these, namely that if both of the first two assumptions do not hold, the government can always still jump to the rescue if things don't work out.

There is, of course, from an environmental point of view, no logic to the argument that, if the State is a poor decision-maker with regard to resources, then the market must be a better one. Environmental

degradation and resource mismanagement is as much an outcome of market failure as it is of government failure. In many cases, government intervention (such as in pollution control) is the very result of the failure of the market to control "externalities" of resource use, and of prices to reflect the real costs of producing goods and services (in social, environmental, short- and long-term respects). Shifting decision-making on resource use and allocation from the State to agencies operating on commercial principles does not eliminate the need to address the social and environmental implications of such decisions (Rees, 1985).

The most obvious illustration of this point in the New Zealand context can be found in the energy policy area. With the corporatisation and (partly) privatisation of the government's assets in this sector (Electricity Corporation, Petrocorp, Coal Corporation, oil and gas), resource policy in this sector has become almost exclusively subject to commercial considerations. Although this has resulted in a boost in the financial returns of the companies involved, it has not led to the introduction of policies and practices directed at increasing energy efficiency and conservation, a reduction of greenhouse gas emissions, or a greater reliance on renewable energy resources (all elements of a policy towards sustainable energy management). The market in energy resources is in itself incapable of overcoming the many barriers towards the introduction and implementation of such policies (such as: lack of information, lack of affordable technology and expertise, long pay-back periods, attitudes, and other). Without sustained government commitment and efforts to develop and implement a policy of sustainable energy management very little, if any, progress in that area will be made (Fitzsimons, 1990; McChesney, 1991; Parliamentary Commissioner for the Environment, 1992).

That the failure of the market to deliver in this respect may have serious consequences, even in the short term, was illustrated by the "power crises" in New Zealand in the first half of 1992. Strong suspicions were raised that the crisis was as much a result of commercial decisions made by Electricorp as of weather (drought) conditions, suspicions which led to the establishment by the government of a committee to conduct an inquiry into the issue. However, although questions have also been raised about the responsibilities of SOEs with regard to social and environmental needs and

objectives, and their accountability to the government, no steps have as yet been taken to review the SOE model as such.

The second assumption underlying the corporatisation and privatisation of resource management, also affecting the social and environmental performance of SOEs, is that goals and goods can be conveniently split into predominantly private and public categories. SOEs, like companies in the private sector, concentrate almost exclusively on producing those goods and services the benefits of which are excludable (can be denied to those who do not pay), whereas the use of resources for goods or services which are non-excludable (the benefits of which cannot be confined to those who pay for them, such as clean air) are mostly seen as the responsibility of the government. Because of their public nature, the second type of goods is often also considered to be environmentally and socially more sensitive, whereas private goods are usually regarded as primarily important for the welfare of individuals. The shift towards corporatisation and privatisation has also been justified on these grounds: why should the government be involved in providing goods and services that are predominantly private in character, and which can be left to the market?

In the New Zealand context, the views of the Treasury and governments on energy can again be referred to as an illustration of this point. Treasury takes the view that there is nothing about energy to warrant that it be treated as a public good, and believes that the allocation and management of energy resources by the market not only results in the most efficient use of resources, but also provides incentives for the conservation of energy (through the price mechanism). This line has also been adopted by New Zealand governments since 1984, and was most vividly expressed by an energy minister who compared the provision of energy with that of bananas (McChesney, 1991, p. 28; Welch, 1992).

A flaw in this line of thinking is, of course, that the dividing line between public and private goods, as well as the public and private sector, is often blurred, and that the provision of private (excludable) goods may have social and environmental implications as important or serious as the provision of public goods. Much of the past involvement of the State in New Zealand with development was partly inspired by social and environmental

considerations, such as the "uneconomic" planting of forests in areas (such as the East Coast of the North Island) for the purpose of providing employment and controlling erosion. The establishment and maintenance of many "uneconomic" post offices in small and isolated settlements occurred out of social considerations (providing essential financial information services to those who are less mobile, an argument now dismissed as "political"). The provision of many private goods, such as cars, houses, and agricultural products (which may involve a high level of pesticide use), on the other hand, has significant public good aspects and environmental implications.

The corporatisation or privatisation of State trading activities, and the concurrent establishment of agencies with clear, non-conflicting mandates does, therefore, not necessarily provide better answers for the social and environmental questions associated with those activities. Whether environmental considerations will be given greater weight than under the previous system where conflicting values were internally "balanced" within agencies with double mandates, is an open question. The argument that has been advanced is that it is more transparent if governments "buy" goods and services which are considered important from a non-commercial point of view, from those companies, instead of saddling them up with conflicting mandates.

However, the fact that such balancing has become a more open and transparent process, does not seem to have resulted in any significant gains from an environmental point of view. Much depends on the preparedness of governments to develop and implement policies which address environmental problems, whether they generate from within the State or from the private sector. Apparently, as the energy policy area demonstrates, there has been a reluctance on the side of governments to "interfere" with the operations of SOEs, out of fear to upset the commercial footing on which these agencies were established. On the other hand, as reflected in the decision by the National government in 1992 to provide grants to promote extensive planting on the East Coast of the North Island (National Business Review, 3 July 1992), and in the fact that Prime Minister Bolger reminded SOEs of their social responsibilities (The Press, 11 August 1992), it is recognised that these companies, operating on purely commercial

grounds, fail to address important social and environmental issues associated with the resources they manage.

This brings us to a third, contradictory, assumption underlying the shift towards market based resource management. Implicit in this move is the notion that if market based resource management fails, it is always still possible for the government to jump in and correct such failure. Ministers retain the power to modify the Statements of Corporate Intent of SOEs, and governments can introduce rules and regulations, or provide incentives, to move the private sector into socially and environmentally desirable directions. However, it seems somewhat paradoxical to expect from governments that they are willing and able to do this, if, in first instance, it is assumed that they do not have any superior motive or capability to make any wiser decisions than the market with regard to the allocation and management of resources. It is therefore interesting to see whether and what progress has been made by New Zealand governments in the correction of environmental "market failure", for instance, through the introduction of economic instruments, a topic we will return to later in this paper.

Overall, it can be argued that the shift in resource allocation and management from a "hands on" approach by the State towards a market based orientation does not automatically imply that, from an environmental perspective, resources are managed any better. Although the State may no longer be directly involved in environmental "vandalism", there is no guarantee that such vandalism does no longer occur, as demonstrated in countries where the State plays a less direct role in resource management and economic development (such as the United States). Whether environmental values carry a greater weight in resource management, either in the public or the private sector, depends very much on the political commitment of governments to the introduction of effective environmental policies.

Bringing More Business into Government: the Reform of the Public Service.

A second important plank of the reforms advocated by Treasury and introduced by the fourth Labour government was the reorganisation and reshaping of the core (non-commercial) public service. Again, the reform was inspired by economic theories about government and bureaucracy, and by an approach to the public service which has been characterised as new managerialism or new public management. The general thrust of the reform was to model the public service on management principles derived from the private sector, with the view to making it more efficient, accountable, and flexible (Treasury, 1987; Martin, 1990; Boston, 1991; Hood, 1991).

By the time these reforms were introduced across the whole of the public service, with the State Sector Act 1988, and the Public Finance Act 1989, significant changes had already occurred in the system of environmental administration. Although the environmental reform, initiated by Labour after the 1984 elections, took place very much in response to the demands of environmentalists, it also foreshadowed the kind of change that was to take place across the public service.

The first aspect of the environmental reform that reflected a principle that later was to underpin the reform of the public service as a whole was the formulation of clear, non-conflicting departmental mandates. This principle was applied by allocating conservation and commercial responsibilities to separate departments (the abolition of "dual mandates"; the establishment of DOC on the one hand, Forestry Corp and Landcorp on the other), already referred to above.

Environmentalists advocated the establishment of a Ministry for the Environment which would combine all the major conservation responsibilities that were scattered over a wide range of agencies. On top of that, the Ministry would become the principal planning and regulatory agency for the environment, combining functions also previously held by various other departments. The Ministry was to have real clout, replacing the "toothless" Commission for the Environment (Forest & Bird Protection Society et al., 1980; 1985).

Treasury, on the other hand, was not in favour of combining all these responsibilities in one agency, nor did it support allocating a planning and regulatory role to a Ministry for the Environment. Instead, Treasury saw the Ministry for the Environment's role primarily as that of a policy agency, leaving regulatory functions (e.g. pollution control) with other agencies (such as the Health department), and the responsibility for the implementation of environmental policies with local government. This reflected Treasury's view that policy, regulatory, and delivery functions should be separated in order to avoid (producer) capture of the policy process, a principle which would also later be applied throughout much of the public service (Boston, 1991).

Treasury saw the task of the Ministry for the Environment primarily as one of developing a framework within which those involved in environmental decision-making would find incentives to arrive at solutions themselves. For this reason, Treasury was also not in favour of allocating a planning function to the Ministry, as the word planning was associated with undesirable bureaucratic control (Treasury, 1985a; 1985b).

Therefore, although the establishment of the new Department of Conservation as an "advocate for conservation" can in part be interpreted as major victory for the environmental lobby, it was also an outcome reflecting the Treasury line. The mandate of the Ministry for the Environment (characterised as the "Ministry in the Middle", Establishment Unit, 1986), on the other hand, is much harder to explain on the basis of the demands of environmentalists, but mirrors Treasury's aversion to bureaucratic regulation and planning (both associated with a "command and control" approach).

Less directly attributable to either the efforts of environmentalists or Treasury was the creation of the office of Parliamentary Commissioner for the Environment. The Commissioner was allocated the role of independent watchdog over the system of environmental administration, and is responsible for investigating issues and areas in which the environmental policy process may not function properly. The office combines elements of the roles of ombudsman and auditor, and has significant investigative, but

no decision-making powers. Given its role, the Commissioner's office was also the obvious place to locate responsibility for the environmental assessment procedures ("Environmental Protection and Enhancement Procedures", EP & EP), a residual function of the former Commission for the Environment which did not fit in nicely with Ministry for the Environment's policy role. Although Treasury considered that the procedures were redundant (just another layer of bureaucratic control), it was decided that they would remain in place until new arrangements for environmental assessment would be introduced (Buhrs, 1991a).

Although these changes have, in various respects, considerably strengthened the formal position and capacity of environmental agencies within the policy process, they have had a fairly limited effect on the development of more effective environmental policies. On the one hand, the reasons for this have to do with the fact that the functioning and effectiveness of environmental agencies within the public service depends on a broad range of factors, amongst which the level of government commitment to environmental issues, the relative position of these agencies in the bureaucratic framework and the resources at their disposal, as well as the strength and support of their constituencies, and the choices that these agencies themselves make (Enloe, 1975; Buhrs, 1991a). More generally, however, the effectiveness of these agencies should also be seen in the context of the functioning of the public service as a whole. It is for that reason that the larger transformation of the public service in New Zealand needs to be analysed on its environmental implications.

With the introduction of the State Owned Enterprises Act 1986, the State Sector Act 1988, and the Public Finance Act 1989, the public service in New Zealand has been changed beyond recognition from one based on the Westminster model towards a system having much more affinity with the operation of the private sector. Government departments now operate as business-like organisations, with chief executives instead of heads of departments, personnel appointed no longer on an indefinite (career service) basis, but on a contract basis, with payment dependent on performance, ministers entering into contracts with departments to "purchase" their services, and departments required to formulate corporate plans with quantifiable criteria for measuring "outputs". The reforms,

inspired by principles derived from public choice and other theories which are based on the presumption that public service performance is primarily the result of the self-interested behaviour of individuals, have led, as noted above, to the separation of conflicting mandates, policy and delivery functions amongst agencies, an emphasis on goals instead of process, and to increased flexibility in the management of departments ("inputs"). Essentially, the reforms break with the tradition of a unified, career based public service, and move towards a system more akin to that of the private sector (Whitcombe, 1989; Martin, 1990; Walsh, 1991).

Although these reforms may have been largely beneficial from the point of view of having induced changes in behaviour and processes leading to improved "performance" (Steering Group Review of State Sector Reforms, 1991), they are also problematic because of the fact that managerialist principles, derived from the private sector, are not simply transferable to the public sector and the public policy process, which is in important respects different from the private sector (Boston, 1991). Three difficulties can be identified which are of particular relevance to the environmental policy process. These are associated with the emphasis on goals, especially quantifiable goals, the reinforcement of the vertical nature of the policy process, and the implications of the reforms for the development of a long-term perspective in environmental policy.

The reform's emphasis on goals is an illustration of efforts to make the policy process more rational. The idea that the performance of organisations can be improved by introducing clear objectives is nothing new (Simon, 1945). Despite the fact that Simon explicitly acknowledged the limitations of a purely rational model of decision-making, the concept provoked a long-standing debate about its feasibility and desirability (Lindblom, 1959, 1979; Goodin, 1979; 1982; Gregory, 1989). We will not here enter into the debate between rationalism and incrementalism, apart from mentioning that it has led to a recognition by many analysts that an extreme emphasis on either goals or process in policy making is unrealistic and undesirable (Simon, 1976; Lindblom, 1979). In a complex and diverse world, it is often impossible to set or achieve clear objectives, whereas policy-making without goals or intent (apart from the fact that it is a contradiction in terms) amounts to "drifting" (action without direction) and

leads to undesirable outcomes (Etzioni, 1967; Lindblom, 1977). Parties on both sides of the debate seem to have found wisdom in a middle way between both extremes, whether identified as "bounded rationality", "mixed scanning", or "strategic analysis" (Simon, 1945; Etzioni, 1967; Lindblom, 1979; 1980).

Environmental problems are amongst the most difficult facing society. Many of these issues are highly complex ("science intensive"), interrelated (ecological interdependence), comprehensive (ecological, social and economic dimensions) and controversial (involving ethical, value conflicts). In such circumstances (characterised by a high degree of uncertainty and disagreement) it is often difficult, if not impossible, to formulate clear or measurable goals in line with the managerialist perspective. Consequently, the criteria for "good" environmental policy relate as much to the *process* or *direction* as to the formulation of (measurable) goals. Intentions, efforts, resources, and mechanisms facilitating conflict resolution are in these conditions as significant, if not more, as clear and quantifiable objectives.

Too much emphasis on clear and measurable goals in defining and assessing the role of environmental agencies may lead to goal displacement: a focus on goals which can be more easily achieved, or where progress is more demonstrable, at the cost of goals or issues which are more difficult to resolve, or where progress can be hard to measure (such as sustainable resource use, or enhancing the quality of life). Taking the Corporate Statements and Annual Reports of the Ministry for the Environment as an indication of the goals and criteria for the environmental policy performance of the Ministry, one certainly gets the impression that goal displacement has occurred within the Ministry, to the point where goals and performance are related to rather meaningless and trivial "outputs". Examples are the measurement of performance on the basis of such things as the number of briefing papers "provided on time and accepted by Ministers", the number of research projects completed, "the provision of advice", and "Ministerials: Draft responses to all Ministerial correspondence to be provided within 20 working days of receipt of correspondence, with quality such that first drafts are acceptable to the Minister, in 95 percent of the cases" (Ministry for the Environment, 1991,

1992). Hardly, if any, substantive information about the development of policies and strategies to tackle environmental problems can be found in Corporate Statements, nor information about their effectiveness in the Annual Reports. The reports seem to suggest that the policy performance of the Ministry can best be measured by the amount and rate at which paper has been produced!

A second effect of the application of managerialist principles to the public sector is that the co-ordination of policy has become even more problematic than under the previous system. The downside of giving chief executives the "freedom to manage" in order to achieve the goals set by individual ministers has been a strengthening of the phenomenon of departmentalism, an almost exclusive preoccupation by departments with their own goals and interests. With the abolition of "dual mandates" and the separation of conflicting roles between departments, departments are no longer confronted with the need to balance conflicting sets of goals. There is little incentive for departments to consider other goals or interests than their own, particularly if their performance is assessed on the goals agreed upon with individual ministers. Unless departments are functionally interdependent for the achievement of their goals, they have no reason to give consideration to the effects of their activities on the goals of other departments, or on collective goals.

The Government recognised this problem (State Services Commission, 1991), and has tried to remedy it by incorporating a clause in the performance contracts between ministers and chief executives requiring consultation in matters affecting other departments or the collective interests of the Government. However, the problem has been exacerbated with the erosion of the notion of a unified public service, and a decline in the public service culture (Martin, 1991), and it is doubtful whether this requirement is adequate to overcome the structural impediments for interdepartmental consultation.

Although these problems affect the performance of the public sector as a whole, they are perhaps even more seriously felt in the realm of environmental policy. Given the interdependence of environmental phenomena, fragmentation in policy-making has been identified as an

important cause of the displacement of environmental problems, and of environmental policy failure in general (Dryzek, 1987). Many, if not most, sectoral policies (such as economic, agricultural, energy, and transport policies) have important environmental repercussions. Consequently, a more comprehensive or co-ordinated approach to environmental policy-making has been identified as a condition for improving environmental policy performance (Haigh, 1989; Bartlett, Buhrs, 1991a; 1991b).

The Ministry for the Environment has been given a reporting function, implying that the Ministry should be consulted on all proposals with significant environmental implications before they reach the Cabinet table. However, although this is potentially an important mechanism in the implementation of the Ministry's co-ordination role, it is regularly circumvented, and dependent on ministerial support to make it work (Buhrs, 1992). The Ministry, not having real powers or a management role, depends primarily on a strategy of persuasion in its efforts to develop and co-ordinate environmental policy (Buhrs, 1991b). Not surprisingly, many policies (such as economic policy, agricultural policy, energy and transport policies) have continued to be developed without adequate consideration being given to environmental implications. Even in policy areas which are usually considered as more directly "environmental" (such as hazardous substances, packaging, and waste disposal), policy development and co-ordination has been very difficult and slow.

A third problem associated with the reforms is that they may reinforce a short term view of the policy process. By making departments more accountable to ministers whose time horizon extends to the next election, departments are led towards giving priority to short term, politically attractive issues. This tendency is reinforced by the prevailing view of recent New Zealand governments that planning is not an important, or even desirable, thing to get involved in, as it smacks of heavy government intervention and creates unrealistic expectations about the capabilities of governments. Instead, New Zealand governments since 1984 have focused on creating the frameworks, on setting the rules (the "level playing fields"), within which other people decide what they want to achieve, whether in the short or long run. This (meta-) policy approach has not only been applied to the economic policy area, but to a whole range of policy areas, including

health, education, and environmental policy, although there are differences in the degree of control the central government retains over the parameters in each policy area (McKinley, 1990).

Although this approach of devolution and decentralisation appeals to many environmentalists, as it ties in with their doubts about the capability of central governments and bureaucracies to deal with complex environmental problems, as well as with philosophies of giving communities greater control over their resources (Dryzek, 1987; Ophuls, 1977; Paehlke, 1989; Paehlke & Torgerson, 1990), it also raises a number of unresolved questions, such as with regard to the commitment and capability of local governments to environmental values, equity issues with regard to access to resources among and within regions, the traditionally low level of public interest and participation in local government, and the place and role of local governments in the play of forces behind the many environmental problems of a national, international and global nature (such as related to the energy resources and transport industries). Many, if not most, environmental problems cannot be resolved within a couple of years, but require a long-term view, strategy, and commitment, and need to be addressed at a global, national as well as local level. Whether local governments and the private sector have the commitment and capability to take on such a role is highly questionable.

The shift towards "the market" and devolution in resource policy and management may create a policy vacuum in many areas and issues where national governments fail to provide guidance, and local governments and/or the private sector have not yet come to terms with the new responsibilities thrust upon them.

It is ironic that recent New Zealand governments have made themselves highly unpopular by adopting policies which they themselves perceive as being in the long-term interests of the country, but that are widely perceived as anything but long-term policies. This is not surprising, as these policies do not much more than laying the responsibility for providing solutions to major problems (whether it is the lack of investments, unemployment, energy conservation, or the sustainable management of resources) somewhere else (the market or price mechanism, consumers, producers, or

local governments). In the absence of firm guidance in these matters by the central government it is hard to see how people can interpret this approach as anything other than as "passing the buck" instead of a long-term strategy for the resolution of these problems. The abolition of agencies that provided an institutional basis for policy advice in these matters (such as the New Zealand Planning Council, the Environmental Council, and the Ministry of Energy) has only helped to reinforce that impression.

Overall, the reform of the public service along new managerialist lines may have had a positive effect on environmental management in some respects, but a neutral, or even negative, effect in other respects. The making of trade-offs between environmental and other values has become more transparent with the separation of conflicting mandates between government agencies, and the degree of rationality and accountability in the environmental policy process has been enhanced with the emphasis on formulating goals. Another positive element of the reform is the flexibility which it gives to environmental (and other) government agencies in the allocation of resources for addressing problems. However, the reforms mean little for the relative priority given to environmental values in the policy process, and may have accentuated problems with regard to environmental co-ordination, the development of long-term policies and strategies, and, paradoxically (given the emphasis on goals), the need for central government guidance in environmental issues which are too big or too complex to be handled on a lower level. These findings are not surprising, however, as the reforms were not primarily inspired by a desire to improve *environmental* policy-making and management, but by the wish to put government activities on a more efficient footing in line with theories and practices derived from economics and the private sector.

The Implementation of Environmental Policy: From "Command and Control" to the Use of Incentives and Market Instruments.

A third plank of reform advocated by Treasury relates to a greater use of economic instruments as an alternative to direct regulation ("command and control" mechanisms), particularly in the area of environmental policy (Treasury, 1985a, 1985b; Buhrs, 1991, pp.208, 371). The idea, of course, did

not originate in New Zealand (Baumol and Oates, 1975; Kneese & Schultze, 1975; Anderson & Kneese et al., 1977), but received growing attention in this country in the last decade (Kerr & Sharp, 1985; Sharplin, 1987; Bromley, 1988; Meister, 1990; Ackroyd et al., 1991).

Some of the acclaimed advantages of using economic instruments above direct regulation (standards) are efficiency (achieving goals at fewer costs), allowing choice, providing incentives for technological innovation, minimising bureaucracy (need for control), internalising real (external, hidden) costs of activities, and generation of revenue (Elkin & Cook, 1985; Kelman, 1981; OECD, 1980; 1989).

Economic instruments can be classified into several categories, such as charges, subsidies, deposit-refund systems, market creation, and (financial) enforcement incentives. A range of these instruments have been introduced in the environmental policies of various countries, although in a rather piecemeal way, and not always for environmental (but for revenue raising) reasons. In Europe, charges, subsidies, deposit-refund systems, and enforcement incentives are fairly common, whereas market-creation has only been applied on any significant scale in the United States (OECD, 1989; Majone, 1989; Cairncross, 1991).

In New Zealand, despite the fact that since the early 1980s Treasury demonstrated a strong interest in the application of economic instruments, little headway has been made in this field. The only significant economic instrument introduced in this country in the area of environmental policy is the establishment of a system of property rights for fishing quota (Individual Transferable Quota, ITQ) in 1986. Another example of market creation can be found in legislation aimed at reducing and ultimately phasing out ozone depleting substances, under which import licenses have been made tradeable. Apart from that, very little has been achieved. Differential taxation has been introduced to make unleaded petrol a few cents cheaper than leaded petrol. The Resource Management Act 1991 only allows for a very limited introduction of economic instruments (Salmon, 1991a), and the attempt by the Minister for the Environment to sell the introduction of a 2 cents regional petrol tax as a "green tax" (to make up for a cut in government

subsidies for public transport!) failed, as it was absorbed by the oil-companies (The Press, 29 April 1992; 13 May 1992)..

On the other hand, it should be noted that the aversion of New Zealand governments since 1984 against charges or subsidies, inspired by the fear of bringing about "market distortions", has also had some positive effects on the environment. The fourth Labour government abolished a range of subsidies, grants, and tax breaks for land development and farming practices which, in the past, had been responsible for considerable environmental damage, for instance, by promoting the clearance of areas of native forests for farming or exotic forestry plantation, by encouraging an intensive use of pesticides, and by enabling farming on marginal and erosion prone land (land development grants, subsidies on fertilisers).

In the same vein, however, subsidies have been abolished or reduced which had a positive environmental impact, such as the public transport subsidies referred to above, subsidies to promote energy efficiency and conservation and, more recently, grants for research in the field of organic agriculture. This seems to support the conclusion that the abolition of subsidies and grants which had a negative effect on the environment was not so much inspired by government commitment to the environment as well as by a rather purist conception of the beneficial effects of the market.

Belief in the "invisible hand" of the market in producing common goods is, however, only one reason why New Zealand governments have not been more aggressive in introducing economic instruments in the environmental policy area. At least three other categories of problems can be identified attached to the introduction and application of economic instruments in this field, each providing multiple reasons which help to explain why these instruments have not been introduced much more extensively. The three categories are: implementation problems, political-economic problems, and moral and philosophical problems (Elkin & Cook, 1985).

Implementation problems with regard to economic instruments stem in part from the complexity associated with determining the correct level of economic instruments, and in part from the assumption that they are self-enforcing. Charges, for instance, in order to achieve the desired effect,

should be set at a level where they provide enough incentive, but no "overkill" (imposing unnecessary costs). Ideally, levels should be set on the basis of information about each company's production-cost function, an obviously huge task if numerous companies are involved in the particular industry (apart from the problem that all the necessary information may not be available). To meet this problem, charges can be set for a whole industry on a trial and error basis, but this is rather unsatisfactory as it may mean that the target behaviour may not be achieved in quite a number of cases.

An example of implementation problems related to the property rights approach can be found in the Quota Management System (QMS) for fisheries in New Zealand. As the total allowable commercial catch for some fish species, in particular orange-roughy and hoki, appeared to be unsustainably high (a problem in part stemming from the fact that determining the maximum sustainable level is a highly complex matter, and partly caused by politicians ignoring officials' advice), ITQs had to be reduced. However, as the quotas had been set at an absolute level (and not as a relative proportion of the total allowable catch), the government was forced into an expensive compensation deal with ITQ owners in order to reduce their quota (Lambert, 1991; National Business Review, 29 November 1992). Although the complexity of the problem would have been the same under a non-property rights system, the implications for the government of making such a mistake would have been a lot cheaper!

Other implementation problems stem from the fact that economic instruments are not self-enforcing, despite the assumptions often made to that effect. The argument that active policing or control can be avoided by substituting economic instruments for bureaucratic regulation (standards), as financial incentives will guide self-interested individuals towards the desired goal or behaviour, just does not hold. There is no reason why self-interested individuals will not pollute more than they are allowed on the basis of a right allocated to them, or why they would not manipulate information, if adequate monitoring/policing mechanisms have not been put in place, or if the risks of being caught (including the chances of prosecution and level of penalties) are not very high.

Again, an example of this problem in New Zealand can be found in the fisheries QMS system. Numerous cases of illegal fishing (non-reporting) and mis-reporting catches have come to light in recent years (Conservation News, February 1992). Given the fact that there are not enough observers to monitor all fishing boats, and the chances and costs of being caught can be considered as relatively slim (confiscated boats have been returned to their owners) these cases could well be the tip of an iceberg.

Political-economic problems associated with economic instruments relate to such issues as the lack of public support for economic instruments (including from the side of environmentalists and existing polluters), the question of how to allocate the initial rights (existing polluters/users, other interested parties, or all members of public?), ownership and decision-making in relation to public resources (should individuals have the right to own and decide on public goods?), and the costs for the economy (inflationary effects of charges). Altogether, these difficulties make that there is little or no "political bread" in introducing economic instruments, and they are often sufficient to dissuade the most interested politicians from pursuing the idea.

Political-economic problems also seem to have played a role in the lack of headway made with economic instruments in New Zealand. Although the notion has gained ground in recent years (Ackroyd et al., 1991), support has been largely confined to academic and business circles. In general, environmentalists have been much less enthusiastic about the idea, and many eye the initiatives of the Maruia Society in this direction ("Green Economy Programme"; Salmon, 1991a; 1991b) with suspicion.

However, opposition to the introduction of economic instruments has also been coming from other groups in New Zealand. Since the 1970s, industries in New Zealand have consistently and successfully opposed the introduction of compulsory deposit-systems and product charges (Buhrs, 1991). Maori have waged fierce opposition to the introduction of tradeable property rights for resources (such as fisheries) which they claim under the Treaty of Waitangi.

Despite the fact that the introduction of economic instruments may lead to efficiency gains (Elkin & Cook, 1985), they also encounter economic obstacles. The imposition of new charges (such as a carbon tax) has inflationary consequences, and is therefore not likely to be popular amongst governments which, as in New Zealand since 1984, have been obsessed with getting inflation down (following monetarist policies).

It has been noted that the most important objections to are of a moral or philosophical nature. Using economic instruments in environmental policy (in particular pollution control), it has been argued, reflects indifference towards motives of polluters, fails to stigmatise polluting behaviour, degrades environmental values (by subjecting them to pricing or market forces), and raises equity questions (only allowing wealthier people to choose). The use of economic instruments is not, as some advocates seem to imply, a neutral matter (related to the efficiency of means in achieving given goals), but has important ramifications for the type of society people (want to) live in. Whether or not economic instruments should be used is a political question, involving debate about values and processes (Kelman, 1981, Elkin & Cook, 1985; Majone 1989).

However, in New Zealand, very little explicit consideration has so far been given to the moral or philosophical implications of the introduction of economic instruments (Environmental Council, 1987), although it is likely that the lack of enthusiasm for these instruments from the side of environmentalists, notably for the creation of property rights and markets in environmental goods, also stems from this moral reservations. Yet, it appears that many environmentalists in New Zealand are keeping an open mind on these matters, in particular on the potential usefulness of environmental charges, as reflected in calls for the introduction of a carbon tax.

Altogether, there are many good reasons why economic instruments have not yet made much headway in environmental policy in New Zealand. Despite their philosophical attraction to Treasury, and the existence of a number of other strong protagonists in New Zealand (Ackroyd et al., 1991), it has become clear from overseas experiences that economic instruments are not the panacea for environmental problems that some may initially

have thought. Their claimed advantages are often exaggerated. Economic instruments still require government intervention and control to be effective, and in many cases, they are no substitute for regulation (Mitnick, 1982; Elkin & Cook, 1985; Hula, 1988; Rose-Ackerman).

So far, economic instruments have failed to capture the imagination of most politicians in New Zealand. With the departure of their most ardent advocate within cabinet (Simon Upton) from the environmental portfolio, and the debacle of the "green" petrol tax in 1992, the National government seems to have lost much of its interest (if it had any) in this field. Given the fact that also both other main parties (Labour and the Alliance) do not display a strong enthusiasm for the use of economic instruments in environmental policy, it is likely that the rate of their introduction in New Zealand will continue to be slow.

Conclusion: Towards a Market-Led Environment? Limits and Constraints.

Given New Zealand's political system, governments can move fast and radically, as demonstrated, between 1984 and 1990, by the fourth Labour government. In many areas, including that of environmental policy, the policy landscape has been completely altered. Since 1990, under the National government, reforms continued in a very similar ideological mould, be it at a slower pace.

Over a period of about nine years, the main thrust of reform has been to reduce the role of the State in the allocation and management of resources, whether for economic, social, or environmental purposes. In the economic sphere, the changes have been most radical, designed to release the forces of the market towards a return of growth and prosperity. The split between responsibilities for development on the one hand, and environmental protection on the other, was as much inspired by a desire to make State trading activities more efficient than by environmental demands and promises. Similar efficiency motives dominated the reform of the public

service, and underlay Treasury's interest in economic instruments for implementing environmental policy.

In key areas of resource management, such as energy, the changes have brought about a definite shift towards decision-making on purely commercial grounds, without government "interference" (apart from setting an expected rate of return on investments). Although governments still have the right and power to direct activities in these areas (as far as assets have not yet been sold) for social or environmental reasons, they have proved to be very reluctant to use this option. Governments seem to have adopted Treasury's view that commercial decision-making in these matters will also lead to the most desirable outcomes from a social and environmental point of view. Consequently, government policy in these areas lacks direction in terms of the purpose or rate of resource use.

This doesn't imply that, from an environmental point of view, decisions about these resources are any better or worse than before. Heavy direct government involvement in the energy sector in the past has been perceived by many as an environmental (as well as economic) disaster. However, as the failure of market-based decision-making to produce environmentally desirable outcomes in an area such as energy is well documented, guidance by governments seems inevitable. However, in the absence of an immediate crisis, the form of that guidance will depend at least as much on a government's commitment to economic growth as on the strength of environmental demands. There is little reason to believe that, without greater commitment of governments to environmental matters, the restructured public service is conducive to an "integration" of economics and environment which gives more weight to the latter than in the past, let alone give it "lexical priority" (Dryzek, 1987).

The implementation of the move towards a market-led environmental policy proves to be even more problematic with regard to the use of economic instruments, where a low level of political support combines with technical complexity and potential economic costs. In a political climate where "New Right" and monetarist policies still predominate efforts to restore economic growth, governments are more likely to reduce or eliminate forms of government intervention (economic incentives, regulation) which

government expenditure, rather than to pursue environmental policies which incur an increase in costs, inflation, or regulation. In other words, governments of this ideological orientation are more inclined to adopt environmental policies "on the cheap", despite the potentially high environmental, social, and economic costs of such policies in the long term.

The drive towards getting government out of business and getting more business into government has led to the virtual elimination of "State sponsored vandalism" with regard to the environment, but it has not, in itself, created a shift towards a more positive approach in environmental policy. Instead, it has opened the door more widely for environmental vandalism by others, notably in the private sector. Given that potential, the question of how environmental decision-making outside central government, on the level of local and regional government, and in the private sector, will be guided, becomes vital. In that context, it is important to assess whether, and to what extent, the reform of local government, and the introduction of new environmental legislation, in particular the Resource Management Act, provide a framework for the future development of sound and effective environmental policy.

NOTES

1. A book with this title was written by the French socialist Albert Metin (Castles, 1985, p.12).
2. This doctrine implied that wages had to be high enough to allow workers to enjoy a "decent living according to the colonial standard, which is higher than the British standard, considerably higher than that of continental Europe, and immeasurably higher than that of the Chinese or Indian coolie." This level was sustained by the protection of domestic industry, which was thereby enabled to pay higher wages. See Castles, 1985.
3. The nine new SOEs were: Airwayscorp, Coalcorp, Electricorp, Forcstrycorp, Landcorp, Telecomcorp, NZ Post, Postbank, and Government Property Services. The legislation also covered five already existing State Owned Enterprises, namely Air New Zealand, Petrocorp, Raiwayscorp, Shippingcorp, and the Tourist Hotel Corporation.
4. It has been argued that privatisation was on the minds of Treasury from the very outset of the corporatisation process, but that this was not initially on the government's agenda. It was only later adopted by the Labour government for the purpose of reducing government debt. McKinley, 1987; Mascarenhas, 1991).
5. By the end of 1990, more than twenty State Owned Enterprises had been sold, for a total value of \$NZ 9.8 billion. Amongst these were: Telecomcorp, New Zealand Steel, Petrocorp, Post Office Bank, the Rural Bank, and Air New Zealand. The State also sold forestry cutting rights for more than \$NZ 1 billion, and its stake in Maui gas. Department of Statistic, *New Zealand Official 1992 Yearbook*, p.443.

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