

# After NPM, curb your enthusiasm for the Principal-Agent theory<sup>1</sup>

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## Abstract

Today the failures of New-Public-Management-inspired ideas to address classic challenges to a public administration, and the way NPM subsequently created new dysfunctions in state apparatuses, inspire us to scrutinize and decide which theoretical components in this field of research deserve to be retained, and which should be abandoned. This is not motivated by any conviction that, somewhere out there, there is a new “grand theory” that simply needs to be discovered. It is argued that not only the future challenges in public administrations, but also those still current, require us to make use of the wide range of analytical tools already available. It also requires a stance against reductionist economic theory. To make this point, this article focuses on the Principal Agent Theory and its origins, underlining that it remains an increasingly popular approach to the analysis of public administration, but arguing that both normatively and theoretically this theory is more problematical than is usually recognized.

To understand what makes people do “the right thing” in public administration – even when no-one is looking – can be said to be a number one challenge from both a practical and a research perspective. However, the New Public Management (NPM) administration models that are still employed today in many parts of the world – in particular in Sweden – seem to take us further from working solutions. This article argues that it will be easier to find alternatives to NPM public administration strategies, and that public administration research endeavours will move forward more easily, by relying less on the Principal-Agent theory.

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Criticism of NPM-inspired models in the public administration discourse has long been widespread in the theoretical literature. It is often said that the discourse “moved on” a long time ago, although in practice NPM has survived (Pollitt 2014). More recently, however, continuing criticism in the research literature has manifested itself more frequently in the real world. NPM is criticized in the public debate for providing perverse incentive structures, overwhelming and ineffective evaluation structures, a dehumanizing work environment, and for deprofessionalizing a number of occupations in the health, education, research and administration sectors (Ahlbäck Öberg 2010; Zaremba 2013; Liedman 2012; Brante et al., 2015; Ahlbäck Öberg and Bringselius, 2015).

However, the claim that the research discourses have “moved on” and that public administrations are mainly waiting to “catch-up” is far from unproblematic for many reasons.

To begin with, public administration has never been known for following the lead of researchers. At least not in any simple way. Politics and economics shape the conditions for reform (see the introductory chapter) and what is finally adopted as a new strategy may hinge more on influences from market forces than on articles published by researchers. Policy makers who are looking for new ways forward are, however, somewhat frustrated by the fact that leading researchers are not recommending a simple “new” model that will provide solutions to the public administration challenges now that New Public Management is no longer in vogue. But here the message should be that one of the most important lessons to be learned from studying the deficiencies in NPM and the application of NPM solutions is that it assumes a “one-size fits all” kind of thinking. In an increasingly complex society, more competent and purpose-designed solutions, combined with political ideas, seem to be the way forward. Designing a public administration is not only a realm for technocrats. In a democracy it is also the subject of politics. Naturally this is not to say that we do not need help from broader research perspectives in discussions on how public administration solutions can and should be designed. And for this reason self-examination in the research discourse is not only welcome but also necessary.

This self-examination, it will be argued here, contains several guiding insights that can provide wider perspectives which may then help researchers and public administration policy makers to move forward. Several important insights have already been presented and demonstrated in the other articles included in this issue of *Statsvetenskaplig tidskrift*. However, there is one implication from several of these contributions that needs to be spelled out. And that is that in some vital respects the field of public administration studies has not really “moved on” to the extent that has been claimed. The more policy makers and public administration researchers try to present a position outside the NPM paradigm, the more evident it becomes that at least some central aspects of the paradigm have taken on the role of a meta- or supra-

ideology. Tingsten wrote that democracy was once a “supra-ideology” (Herbert Tingsten, [1945] 1960: 57). This being so, “one is a democrat, but also conservative, liberal or a socialist.” Tingsten then expressed his worries about democracy losing its position as a supra-ideology. Here the problem is the opposite. The need is rather for the NPM mindset to loosen its grip. In the realm of public administration today, the NPM mindset has such a hegemonic role. To paraphrase Tingsten, “one is an NPM public servant, but also a teacher, a health care worker or a bureaucrat”.

One of the most important illustrations of the extent to which the public administration research discourse is bogged down like this is manifested in the prominent role held by the Principal Agent (PA) theory. This is firmly rooted in a Rational Choice perspective and it is used today in general public administration studies and more specifically in areas of governance and corruption studies. It generates advice on incentive structures for Public Administration policy advisors and strategists, but several of its basic assumptions can be considered burdened with many of the things that NPM was criticized for. It will be argued here that PA theory is not only weak as a theory but may even have some detrimental effects if applied in practice. The discussion here considers the descriptive, explanatory and normative qualities of PA theory. Some references will also be made to Collective Action theory, Social Capital studies, and studies in public administration culture to illustrate these points. The message in this article is not that the criticism of PA theory forces us to throw out rational choice theory (RC) with the bathwater. The message is rather that we should not let RC-inspired theories such as PA theory throw out everything else.

## **From Rational Choice, to the prominence of the Principal Agent theory**

In the US in the late 1980s public trust in the government was at an all-time low and only “one in four Americans expressed confidence in government to “do what is right”” (Perry and Recascino Wise 1990). The situation was quite similar in many places in the West and researchers focusing on public administration performance struggled with perspectives and theories that could capture what guided the actions of public servants. At the time the one perspective which was strongly on the rise politically and among researchers was the “public choice movement.” The dominant idea it proposed was that individuals were mainly motivated by self-interest. It would be unfair to blame the original work of Anthony Downs, Mancur Olson and Kenneth Arrow for all the extreme theoretical interpretations which have followed from the Rational Choice models that were established in the 1950s and 1960s. However, Public Choice (PC), which passionately advocated that market principles be applied in public administration (and many other areas as well), followed immediately

(Buchanan and Gordon Tullock 1962), and in the realm of public administration this later evolved into New Public Management. The public choice advocates essentially asserted that economic incentives guide human action and therefore that self-interest would certainly interfere with public interest in public administration enterprises. A quite credible explanation was provided for why bureaucracies tend to grow and why self-interest tends to replace public interest. The solution was not to fight this force, but to endorse it and consequently to steer and design the organisational public administrations according to this understanding of the human psyche.

The contrast could not have been starker than with predecessors like Herbert Kaufman who emphasised socialization and mores in various forms to explain why public servants would do the right thing in situations that were almost always unmonitored (Kaufman 2006). His insightful study of forest rangers in America explained how norms and altruistic goals were successfully conveyed and then sustained within a relatively small part of the government which had the responsibility of protecting vast regions of the country with infinite values. Without micromanagement, detailed checklists, or obvious carrot-and-stick incentives, the forest ranger in America could almost always be expected to do the right thing – alone in the woods, with possibly just a bird or a bear watching.

What could have happened when Public Choice picked up the challenge to predecessors like Kaufman was that political forces and key policy makers could have decided to make use of the wide range of theories existing between the two end-points described here. However, the political force behind the ideological content associated with Public Choice theories provided for a one-sided application that was unprecedented. A paradigm shift followed (Kuhn 1970).

Fast forward twenty years and the two most obvious examples are the doctrines of government applied by Ronald Reagan in the US, and Margaret Thatcher in the United Kingdom. Fast forward another decade and the application of NPM spread in most advanced economies of the West – although with differences in pace and scope. Sweden, the United Kingdom and New Zealand have in common the fact that some of the most radical reforms geared toward the market-inspired models were introduced by Labour governments in the 1990s. Simultaneously, in the public administration discourses more warnings of the detrimental side-effects of applying simplistic models of governance to modern public administration challenges were issued (Power 1997; Dunleavy and Hood 1994; Lindgren 2014; Widmalm et al., 2014; Ahlbäck Öberg and Widmalm 2012; Ahlbäck Öberg and Widmalm 2013; Liedman 2012). However, it would take another decade before leading political forces would start to listen and even consider the warnings that were raised. This brings us to today when public administration researchers not only speak of the detrimental effects of NPM but also try to point out ways forward.

It is to a large extent true that the downside of applying NPM or a Public Choice paradigm in a one-sided way has been “dealt with” in the public administration literature. However, the argument here is that an exaggerated economist mode of thinking still provides something akin to a supra-ideology in the discourse on governance. And in its most problematic forms it hampers efforts to move forward analytically and to make use in practice of the variety of tools that we not only need, but also to a large extent already have, when tackling modern governance problems.

The focus here is on the prominent theoretical trajectory called Principal-Agent theory, which has been chosen since it is so often promoted as one of the most useful tools for investigating and understanding problems relating to corruption – when people definitely do the wrong thing when they are not being watched. The way of thinking advocated by the PA theorists crowds out (to borrow the vocabulary of the NPM critics) other fields of knowledge and it reproduces reductionist perspectives on human behaviour and what guides action – just like NPM. In particular it does so when it comes to what makes people do the right thing in public administration.

In the opening sentence of her seminal contribution “Corruption and Government” Susan Rose-Ackerman confidently proclaims that “economics is a powerful tool for the analysis of corruption” (Rose-Ackerman 1999). In order to sort out distinctions between gifts and bribes in relation to the concept of corruption, she makes use of PA theory. There is no doubt that Rose-Ackerman’s analysis is an important contribution to corruption studies focusing on the former Eastern bloc. It would be easy to assume that it was the empirical knowledge which she provided, rather than the application of PA theory, which made her contribution a success. Nevertheless it seems that Rose-Ackerman’s position on PA theory must have struck a chord for some.

PA perspectives became more common as NPM models gained ground. They evolved simultaneously, since NPM and the terminology dates back at least to the mid-1970s. However, in corruption studies we can see that it has been emphasized since the late 1980s (Jensen and Meckling 1976; Klitgaard 1988). The general idea comes from economists who regard actors as either customers or clients. In PA-theory today we see that the principal is an actor that may represent a certain interest – for example the public interest. The agent is another actor that is supposed to carry out some action or actions for the principal – for example provide some public services. However, sometimes the agent resorts to pursuit of his or her self-interest instead of the interest that the principal had in mind. This is also known as the “agency” problem. According to PA theory, the agency problem arises when there is some sort of “information asymmetry” between the principal and the actor. In other words, the principal does not know what the agent is doing. The solution to overcome this asymmetry is obviously monitoring. However, principals cannot always monitor agents. The

commonest way of presenting this dilemma is represented by Grossman and Hart:

Consider two individuals who operate in an uncertain environment and for whom risk sharing is desirable. Suppose that one of the individuals (known as the agent) is to take an action which the other individual (known as the principal) cannot observe. Assume that this action affects the total amount of consumption or money which is available to be divided between the two individuals. In general, the action which is optimal for the agent will depend on the extent of risk sharing between the principal and the agent. The question is: What is the optimal degree of risk sharing, given this dependence? (Grossman and Hart 1983: 7)

The analysis of risk-sharing is one approach in this debate. It has produced impressive models which focus on how to calculate costs and benefits – however at a quite abstract level. And of course it has produced a strong emphasis on how to handle the agency problem via contracts of various kinds (Holmström, 1979, Grossman and Hart 1983). Contracts and their design are a central feature of this discourse promoted to solve dilemmas of moral hazard, self-interest, and simply poor understanding of common objectives.<sup>2</sup>

There is certainly a claim here that PA theory offers important solutions by presenting a challenge to, for example, a public administration like this. It puts an emphasis on negotiations for contracts which will then steer processes forward with costs reduced as a consequence. Central problems associated with information asymmetries are tackled by setting up arrangements which may provide “credible commitments.” (Groenendijk 1997; Geralsi 2007; Teorell 2007; Rothstein 2011b). Today PA theory holds a central position in administrative studies. It is generally portrayed as one of the pillars of what has commonly been known for a while as New Institutional Economics and it is regarded as one of the dominant theories in helping us explain why certain governments perform poorly and why they may be plagued by corruption (Rothstein 2011a; Persson et al., 2013).

## Objections to the Principal-Agent theory

PA theory is however by no means universally accepted or hailed. For example Persson, Rothstein and Teorell show a healthy scepticism towards PA theory and claim that in reality there are some places where corruption is so widespread that it may be hard to find the “principled principal”, and then Collective Action perspectives on corruption are more useful (Rothstein 2011a; Persson et

2 For a comprehensive overview, see Laffont and Martimort 2002.

al., 2013). Nonetheless, PA theory is still a perspective which researchers tend to want to improve upon when deficiencies are brought up (Lane 2005; Persson and Sjöstedt 2012; Dehousse 2008). It is even the case that some public administration researchers regard PA theory as a substitute for NPM (Boston and Halligan 2012). Therefore, although a complete case will not be made here, let us at least take the critical analysis a few steps further by trying to formulate the main reasons why, to begin with, PA theory is not a substitute for NPM, and why it may be seen as overhyped theory in general.

The main objections raised here are that:

- PA theory has a reductionist perspective on incentives.
- The concepts of principal and agent are too abstract.
- PA theory works better as a metaphor than as a theory.

## **PA theory, assumptions, incentives, and consequences**

A substantial portion of the criticism made of PA theory is the same as the most common critical comments generally raised against Rational Choice theory. This is not a surprise since PA theories have roots in PC and RC theories. Consequently several objections that have been raised against RC theories apply to PA theory as well:

The rational-choice model that has been subjected to the most criticism is one that presumes (1) extreme selfishness, (2) complete information, (3) an unambiguous capacity to attach utility to all outcome and actions and to rank all alternatives in a consistent manner, and (4) maximization of expected utility. (Rabin et al., 2007: 1102)

Here we recognize many core features of the criticism directed at the NPM model. The NPM model assumed that public servants were mainly motivated by selfishness, that they therefore needed to be monitored, and that evaluations could give complete pictures of activities and goal attainment which would therefore be the main instrument for steering organizations and individuals in the direction which would provide the maximum level of efficiency. All these assumptions have been important in the NPM models that have been applied since the late 1980s which gave rise to the evaluation explosion seen in the 1990s and which still lay a heavy burden on the public sector today (Power 1997; Brante et al., 2015).

It is also responsible for strategies based on monitoring which most employees regard as intrusive and having a de-professionalizing effect. What is puzzling here is that PA theory is based on many of the same ideas, but has man-

aged to survive far better in the academic literature than the widely criticized New Public Management models.

The point is not simply that PA theory is bad just because it builds on assumptions from Rational Choice theory. Selfishness can certainly be a strong motivating force. The perverse effects appear when RC postulates are applied in a one-sided manner. PA theory may appear to be a more sophisticated attempt as it points towards “information asymmetries” which can be more inclusive than just incorporation of “self-interest”, but it still assumes that selfishness is the primary force, sometimes even the only force, which moves individuals. And then the main policy remedy which follows is monitoring and contracts. The way it does so is often quite deceptive, and it finally affects policy makers on the ground.

Based on what I have seen in this field of research and policy development, it happens like this: first, economists create elaborate models based on assumptions – in this case, for example, models that try to handle selfishness, information asymmetries, moral hazard, insurances etc. Models are then constructed that may provide illustrations that tell us for example that certain types of contracts may be needed after risk or asymmetry has reached a certain level. The level in question may not be possible to translate into something concrete in reality. However, an argument can still be provided about something we need to be aware of. Despite this, it should be remembered that the model which was the point of departure to illustrate interaction or interdependencies at a more abstract level was built on assumptions. Even if the economist making the model has a fair understanding of the fact that reality may be more complicated than the model assumes, the conclusions from the model can “catch on” and be elevated to a higher status in terms of claims on reality by those who want to present an appealing theory or policy. In this case it is PA theorists or NPM policy proponents. The theorists take the assumption made by the economists, and then regard it as a reality. By making this leap, PA theorists will then proceed to deny the importance of, for example, institutionalism as well as studies on mores and values such as those provided in the genre that Kaufman belongs to (Kaufman 2006). In the case of NPM policy makers, they project a view of employees as driven solely by self-interest, to a point where professionalism, honour, expertise, ethics, and other values are denied any space. Hence the emphasis put on monitoring, contracts and constant evaluations by defenders of both NPM and PA theory.

Even if this is a valid account of how assumptions travel to become facts and even policy proposals, it still happens even when the economists themselves warn against taking such leaps. Grossman and Hart, for example, clearly state that their models take into account only a situation where the principal cannot monitor the agent, and that that situation is far more complicated when “the agent possesses information about his environment /.../ which the principal

does not.” (Grossman and Hart 1983). However, when a simplified theoretical concept captures the imagination of political scientists, economists, politicians, policy makers and public administrators then it is hard to make them let go.

The point here is not to claim that the whole field of public administration studies has become hypnotized by reductionist ideas provided by economists, or that all economists produce reductionist studies. Economists today wrestle more than ever with complex realities in, for example, the field of development economics. Economists like Sen, de Soto, Chattopadhyay and Duflo are studying the basic realities of poverty and corruption in a more detailed way than many anthropologists (Sen 1999; de Soto 2000; Banerjee and Duflo 2011). A substantial part of the field of administration studies is not only freeing itself from the NPM paradigm but also doing more than resorting to elaborating on categories and concepts. For example, research in the field of crisis management studies shows the need for including perspectives provided by studies of social capital and political culture in order to understand what makes a public administration in particular, and crisis management institutions more generally, “do the right thing” (Benedict Dyson and ’t Hart 2013; Persson et al., 2015; Boin et al., 2006). More thought is given to the fact that individuals are not only structural dopes who conform to the various institutional contexts they are exposed to. Causing change in the other direction, individuals can impose new norms and change organizational culture relatively quickly in a segment of the public administration.<sup>3</sup> Most important, in this genre of studies research now departs from the realization that administrative culture or shared norms can guide individual behaviour more than any set of formal rules, protocols, and white papers. This is a stark contrast to what the research field has looked like, and to what is the main guiding perspective of strategists in crisis management organizations in some countries today.

The claim here is that the problems of theorists and policy makers moving from assumptions to policy recommendations seem to be most pressing when we consider areas where political stakes are high – for example corruption studies, welfare politics, labour politics, and of course public administration policies. These areas provide impressive gravitational fields where once an issue is captured, fact, assumptions, normative claims and explanations can become quite difficult to disentangle.<sup>4</sup>

In sum, the general verdict in this section is that PA theory starts out from over-simplified ideas about what motivates behaviour, ideas which when applied in practice have already proved to generate perverse results (Hood and Peters, 2004). However, the simplistic rational choice assumptions that became

3 These considerations are the guiding ideas of the Persona project which focuses on crisis management in the EU. (URL: <http://persona.statsvet.uu.se>)

4 The inspiration for this description obviously comes from descriptions of *gravitational singularity*. So, we could call the situation described here *perceptual singularity*.

the pillar for NPM, and which are reproduced in PA theory, have pervaded the minds of a substantial number of policy makers, so it seems to have taken the role of a supra-ideology today. That is very hard to change.

The two remaining objections will be dealt with rather more briefly and to a large extent they follow from the criticism set out above.

## Abstractions and reality

As mentioned earlier, Persson, Rothstein and Teorell argue that in some contexts it can be hard to find anyone who actually fulfils the role of the “principled principal” that can be seen to represent “the public interest”. It is mainly, we get from the description of Uganda and Kenya, a situation with a plethora of agents pursuing their own interests. Consequently, the authors argue, it is more useful to apply a collective action perspective to the corruption problems these two countries are facing. The position taken by Persson, Rothstein and Teorell is compelling, but the objections to PA theory raised are not necessarily detrimental to PA theory – unless spelled out more clearly.

PA theory simply states that “public interest” may be one interest that the principal can be said to represent. If we go to a country like Uganda we see that perspectives on interest vary. There are always situations where agency is a problem – no matter what interests are represented. It may be the military or the dominant party there: the National Resistance Movement. Its leaders all need to rely on someone else to do something for them. This is a part of the dilemma of delegating power which has been around as long as humans have interacted in more complex societies. So, to say that there are no principals championing “public interests” is not to say that Uganda’s society is not full of agency problems – or principals. This is recognized by Persson, Rothstein and Teorell, but then the criticism is restricted to saying that PA theory may not be useful when studying “principled principals” in Uganda, while collective action theory may be so. Further problematization of the origins of PA theory is important here. Why did PA theory turn out to be a cul-de-sac when they took it to Uganda?

The more specific conclusion that there are few or no principals that represent a “public interest” is complicated. What does this conclusion tell us? Certainly Uganda’s President Museveni would disagree with Persson, Teorell, and Rothstein. He sees himself as the father of the nation who saved it from the terror of Obote and Amin. That is the primary public interest that Museveni represents – at least officially. Also, consider General Katumba Wamala who always needs more funds to protect public interest by fighting “terrorists”. And then we have Stanley Ntagali who is the Archbishop of the Anglican Church of in Uganda, who is advocating strict laws against homosexuals – in the name of the public interest. The important point here is that the concept of agency is blind to what the principal may represent – no matter which context we discuss. Uganda is just an exam-

ple. Naturally there are principals in Uganda. However, when we assume that a corruption-free administration is the main public interest then of course it may be hard to find leaders who champion this cause wholeheartedly in a country like Uganda – at least in the public administration, which to a large extent equals the main ruling party in the country: the National Resistance Movement – which is controlled by Museveni. However, the same leaders certainly see themselves as representing *other* public interests. Many of them would certainly appreciate it if politics and public services did not depend on bribes: but when weighing some public interests against others, corruption may be seen as a secondary problem. So, Persson, Teorell, and Rothstein may be right when they say that there may be a lack of principals defending the public interest of keeping a clean government and it may also be fruitful therefore to see corruption as a collective action problem there – which is a widely discussed point today in relation to the corruption debate in more general terms (Pippidi et al., 2011; Persson et al., 2013; Stephenson 2015; Marquette and Peiffer 2015). But what does the position taken by Persson, Teorell, and Rothstein really tell us about PA theory – other than that it does not seem to help when analysing Uganda? It seems that as soon as we move from the abstract models, provided mainly by the economists, and really apply the concept on the ground, close to empirical studies based on, for example, in-depth interviews, the complex realities make the assumptions brought in with the concept more of a burden than an asset. Dividing people into principals and agents is metaphorically compelling but, as Burden (Burden, 2007, 45) suggests, on closer scrutiny the dichotomy appears false.

Surely we can talk of agency in abstract terms, but if we then expect from it that one-dimensional characters will suddenly appear on the empirical map, allowing us to categorize actors as “principled principals” who always fight corruption, or selfish agents who always promote it, then it may be time for induction to replace deduction. What can we really expect to find if we imagine that the principal with only one true public interest objective in mind really exists? Or, as stated above, a world of agents driven mainly by self-interest? The problem here is that the concepts of principal and agent can be taken too far. Lane, and even Rose-Ackerman, point out that in reality it is challenging actually to decide or delimit who is the principal and who is the agent (Lane 2005). The corruption literature often emphasizes the fact that it is not only a matter of formally deciding where the boundaries go. In reality the roles of the principal and agent simply shift too rapidly. People are also connected to each other in so many ways that we cannot even expect to disentangle such relationships in a meaningful manner – at least not if we assume the role labels reflect reality. So, while the dichotomy between principal and agent is convenient from a modelling perspective – as we discussed earlier – it may actually make far too many simplifications about what actors represent and how isolated they are in relation to other interests. Whether this really is a problem for PA theory is

most importantly connected to whether we should call PA theory a theory or not. This takes us to the third and final point made here.

## The theoretical value of PA theory

It is certainly accepted here that using the term “agency” or “Principal-Actor problem” is sometimes quite appropriate in order to simplify analytical discussions so they can more quickly cut to the chase. The objection which is raised here in this final section on criticism is that it may be inappropriate to speak of a PA *theory* unless the proponents of PA theory manage to come up with something more tangible than pointing towards “selfishness” and “information asymmetry” in rather broad terms.

As stated above, it is important to weigh in self-interest when discussing what makes people do the right thing, but it is a narrow starting point which is sometimes taken so far that it provides only circular evidence. Public administration researchers, especially those with a comparative perspective, try hard to understand motivation. Motivation may come from a spectrum of sources and rewards. The factors range from those at the personal level to others at the contextual level. They also range from those that emphasize pure self-interest to altruistic motives relating to the will to serve the public interest, professional pride or even nationalistic goals. The public choice advocates however tend to interject here that the goals that we are apt to describe as the most altruistic are actually driven solely by self-interest and self-satisfaction (Perry and Recascino Wise 1990; Chowdhury 2011). However, a theory which claims to explain everything violates the basic condition of a theory – that it must be falsifiable. A theory which explains everything in a world of variation explains nothing.<sup>5</sup>

Of course many PA theorists may not be so one-sided that they do not realise this. But if we then lean more on the other PA leg – the claim about information asymmetry – hoping to find something more valuable here, we may once again end up disappointed. The discussion about information asymmetry is mainly descriptive. It essentially points out that the principal does not know what the agent does all the time and it discusses some forces relating to self-interest that may pull the agent away from the one of the principals. The asymmetry issue is the closest that PA theory comes to pointing to a mechanism at work which allows for corruption, and the solution is most often framed in terms of contracts of various designs. However, the emphasis on information asymmetry is quite general and has been pointed out as far back as we have written records. Most explicitly it was analysed by Kautiliya, the master bureaucrat working for the Gupta Empire, in his writings in the Arthaśāstra around 300 BCE:

5 Some such basic criteria for a theory are well explained for example in Popper 1963.

Just as fish moving inside water cannot be known when drinking water, even so officers appointed for carrying out works cannot be known when appropriating money.

Kautiliya also stated that:

It is possible to know even the path of a bird flying in the sky, but not the ways of officers moving with their intentions concealed.

So it is hard to make the case that the component regarding “information asymmetry” is one of the great discoveries of PA theorists. However what is more troubling is the lack of theoretical clarity from PA theorists who so strongly emphasize principals, agents, information asymmetry and contracts.<sup>6</sup> If this description is not too ungenerous, it is not clear what the PA literature actually provides which warrants calling it a theory.

## Epilogue

There seems to be some sort of consensus among researchers in administration studies that New Public Management models and theories have not only seen their best days, but they have also caused much damage in public administration and continue to do so. We are now at a stage where expectations arise that public administration researchers should fill the vacuum after NPM has lost its popularity even among political actors. However, it is important to be very careful before we accept new “new” theories in this area such as “value based” models or proponents of “New Political Governance” (Bakvis and Jarvis 2012). We need to remember that one of the most important lessons from the failures of NPM stemmed from the expectation that it could fit any problem encountered by the whole range of different organisations that a modern system of public administration consists of today. We have also seen that in spite of all this harsh criticism of NPM, even some of its own critics seem to be prone to gravitate towards the same old solutions in different clothing – namely the Principal Agent perspective. PA theory encourages what NPM did to create dysfunctions: it promotes the idea that most problems can be solved by regarding humans as mainly motivated by self-interest, by generating more information (to counteract the asymmetries) and detailed contracts, and it supports top-down control instead of promoting trust, personal capabilities, and professionalism. Nonetheless, the basic principles that shaped NPM still exert such power over the mind that it is hard for many to think outside its limited universe. Even historians are so captivated by some of the related ideas that this is the only lens

6 See for example Sjöstedt (2009) who provides a very interesting explanation regarding “credible commitments” relating to this discussion and which does so well without PA theory.

which is applied not only when we look ahead towards what needs to be done, but also when looking backwards trying to understand what happened.<sup>7</sup>

So it has been advocated here that if we now also take PA theory out of the back-pack, moving forward will be easier. Policy makers will find it easier to adapt to the different terrains of the increasingly complex landscapes they encounter, researchers can broaden the empirical analysis, and, hopefully, fewer employees in the public sectors will get hurt. It is important to realize that the public sector cannot be managed by reference to the economist perspective alone. In saying so, the point is not to drop RC theory. RC theory can be successfully applied the way it is done by, for example, Collective Action theorists – in combination with other theories – especially those which emphasize social capital and political and administrative culture studies (without of course being overtaken by another reductionist idea saying that “everything is culture”).

The main point which is made here is that public administration studies in some forms, public administration policy makers and political actors, have allowed themselves to accept perspectives on complicated problems and challenges in public administration which may appear to be qualified, sophisticated and technically advanced, whereas upon closer acquaintance they prove to be quite reductionist and to build on over-simplifications that are highly misleading. It is a systematic interpretation of complex problems as reducible to fairly simple incentives. This is not only sad. It implies a dangerous submission to powers which invert the role of science and theory. The ideal of the social *scientific* enterprise is to reveal the true nature of a phenomenon; first to understand its causes, before we even begin to speak in terms of policies, remedies and recommendations. However the reductionism we have witnessed in New Public Management, Public Choice, and ultimately in the Principal Agent perspectives discussed here, and how these perspectives have been applied, do the opposite. Most likely the greatest charge against these perspectives and movements is that they have made far-reaching and simplistic assumptions about human behaviour, and then not only sold it as theory. They have gone as far as actually imposing their views on human behaviour so strongly that human behaviour has been forced to conform to the stipulated parameters. This is what happened when NPM-based theories advocated constant and simplistic evaluations. The theoretical assumptions which steered the evaluations made humans behave accordingly. For example, if the evaluations decided to measure quality in the care of the elderly solely by setting twelve or fourteen minutes for a shower every second or third day as a “norm” for each “customer” – then this would establish a practice where no elderly person would ever get more than that in terms of support for personal hygiene. Having a cup of coffee and a sim-

7 This is a common criticism of, for example, Francis Fukuyama and the perspectives projected in “The end of history and the last man” (1992). See for example Glaser (2014) and Stanley and Lee (2014).

ple chat about the weather would certainly fall outside the scope of efficiency and measurable qualities (Zaremba, 2013). When the only incentive offered as a reward for public servants was expressed in terms of salary, everything but salary would be pushed out – including professionalism. To put it bluntly, economic theories, and their adherents, are far too little concerned with taking broad perspectives on how humans think, feel and react. They are far too much concerned with re-modelling human behaviour, in order to bring it into line with their own theoretical image of it. This is the paradigm that needs to be broken in order to move forward in a post-NPM world.

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