

IMPACT OF NEW INSTITUTIONAL ECONOMICS ON NEW PUBLIC MANAGEMENT

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Abstract: As pointed out by institutional economics, economic indicators may be improved by social institutions that maintain peace and order. Old Institutional Economics (OIE) believes that government should solve systemic socioeconomic problems according to given ideology. On the other hand, New Institutional Economics (NIE) supports only very little or state independent. Public choice theory, property rights, and agency theory have been of great importance in shaping New Public Management (NPM) through transaction cost theory application that underlies government role as regulator and controller. Following NIE, NPM has incorporated measures such as cutting down government, increasing efficiency and effectiveness, encouraging cost effectiveness, decentralizing power, and providing services at uniform standards. This study aimed to determine how NPM developed from the different theories related to NIE. This research evaluates NIE applications, i.e., public choice, transaction costs, and agency and property rights, in relation to NPM reform evolution, development, and execution. The study also considers institutional challenges on promoting market-driven public management practices. NIE ideas are combined with NPM principles such as effectiveness, marketization, and focus on results. It analyses the part played by institutional mechanisms in these reforms or not and tries to say what conditions lead to successful NPM reforms with regard to institutional factors. This study demonstrates that NIE can explain changes in public administration and may serve as advice for policymakers in proper reforms. Moreover, certain adaptation approaches are recommended for assessing institutional impediments prior to NPM reforms. Nevertheless, research recognizes limitations, including methodological problems in quantifying institutional variables, difficulties in determining cause-effect links between institutional factors and reform results, as well as the challenge of isolating NIE's impact from other factors in public sector reform.

Keywords: Public Choice Theory, Agency Theory, Transaction Cost Economics, New Public Management, Old and New Institutional Economics.

JEL Classification: H1, Z0.

1 Introduction

Traditional institutional economics prioritizes institutional development; their function in allocating national income, their effect on economy and their legal implications. On the other hand, new institutionalism took a comprehensive perspective concerning sociology as well as politics of institutions and emerged as response to behavioral approaches that prevailed during the 1960s and 1970s. At the end of 2015, new name was adopted for economics within International New Institutional Economics Community: Institutional and Organizational Economics. Similar to neoclassical economics, NIE studies the economy using scarcity and competition ideas.

According to public choice theory, multinational collaboration is sustained by certain groups with similar interests. Politicians who pursue popular agendas usually misuse state funds; they also have to deal with voter demands. On the other hand, bureaucrats can engage in wastage on public resources as increasing institutional budgets that are not necessary and employing more staff. It is not free to create, show, or trade commodities. Transaction costs arise in production, display, and the sale of goods and services. When these costs are minimized by service delivery with citizen preferences, they enhance appropriate public welfare. Property rights highlight that negotiations must follow particular terms whenever one uses public resources and assets together with other people. According to agency theory, equity should exist regarding

rights and duties of parties involved in contract between principal and the agent. Effective management, as stated by Berle and Means (1932–1991), involves several important elements, such as control, information flow, coordination, and trust. In 1976, Jensen and W. Meckling developed principal–agent theory as well as positivist agency model (Küçükkalay, 2019; Şişmanoğlu, et al., 2020).

NPM has greatly benefited organizational and functional operating processes in the public sector. It is essential for the public sector to adopt economic rationality because people now expect better services funded economically, look at how best the private sectors are managed, and take into account that the government is only intervening in planning policies, controlling risks, or in general for very little (Özer, 2021). This study draws from neoclassical political economy and modern public management theory. It adopted qualitative research methodology whereby theories and assumptions across various disciplines were analyzed and explained. This innovative research was aimed at advancing theoretical debates, enhancing social and political sciences credibility, and improving public managers' capacity in relation to their real-life decisions. At first, current research looks into classical and modern branches in institutional economics. After that, it explores how NIE relates to the theories of NPM. A concrete extent was analyzed regarding NIE impacts on NPM.

The present study uses a comprehensive literature review, containing common materials that are current with historical trends in institutional analysis. NPM sources for study were chosen with great care so that they would represent original and important contributions to NIE made by leading experts as Coase, North, Williamson, and Ostrom. However, studies on NPM theory and various empirical studies – particularly those dealing with public sector issues – which come from academic books, widely peer-reviewed journal articles, and other academic research were also reviewed.

The study recognizes overlap among few specialties, and, for this reason, it examined academic materials, particularly books, journal article, and public administration, political science, or organizational theory studies. These include theories in NIE and those con-

cerning NPM doctrines. Historical, recent current literature on NPM public service delivery, contracts and accountability from Anglo-American tradition, European administrative systems, and some materials in developing nations were surveyed systematically.

This review examined academic works appearing during the 1980s to 1990s, providing ground theoretical frameworks from about 2000 to 2015 as well empirical recent thoughts plus those current as of 2015 – upcoming NPM era, with respect to major themes on transaction costs, property rights, and principal–agent relationships that define institutional economics.

Path dependency analysis provided an integration of case studies and trace historical and institutional effects on NPM reform processes. NIE served as main theoretical base from which explanations linking principles with NPM policy reforms outcomes are sought. Accordingly, an in-depth analysis following process tracing procedures from historical perspective on selected cases has been proposed (Ostrom, 1975; Menard, 2001; Gagliardi, 2008; Silva, 2024).

2 Literature Review: Old and New Institutional Economics

Institutional economics studies different important social factors and how they relate to economy. It draws heavily on Thorstein Veblen's works, an American economist who helped found this school. It provides a policy-making framework in developing countries by considering lessons from more industrialized ones. The approach allows scholars to describe changes in economies over time and examine what factors create wealth for people in developed countries. Van de Walle and Hammerschmid (2011) explain how formal and informal institutions can exist. Contracts, property rights, and rule of law (all part of legal system), governments, financial markets, and their regulatory agencies are formal institution cases.

Non-formal institutions include class structures, educational systems, religious beliefs, and cultural customs and practices. In this view, economic decisions are guided by evolving institutions, which create rules that players on economic scene must adhere to minimize conflicts arising from different aims or different views about what should constitute equitable treatment.

Traditional institutional economics appraises stability criteria and "normative" concepts as an intertwined whole. This unity is sustained through an analysis provided by Darwinism pragmatist approach and German and British Historians perspective. Mercurio and Medema (2006, pp.208-240) argue that German historical school supported economic analysis that responded to social realities unique for every nation.

As a part of historical school, property rights, conflict of interests, and social traditional are very important. This position is opposed by the general views held by British classical economists who presented induction as major intellectual contribution used it argue against social considerations by their standards totally extraneous type assumption, typical for that type economy – sees critique thereof too readily.

Thus, it takes a stance against institutional economics as to govern incompatibilities in business activities it may serve policy objective whereas purely free market approach would not guarantee self-correcting mechanisms sufficient enough at bringing about any reasonable employment level across country at large within short-term perspective whatsoever.

The foundation of economy is social behavior. More and more people ignore static equilibrium idea. It has been acknowledged that economics does not operate in isolation from other social sciences, including politics, sociology, psychology, and law. In traditional institutional economics, these factors are considered within economic interactions as per John R. Commons. Derya (2017) assumed that neoclassical analysis should be part of NIE. NIE is seen as study that examines institutional role in economy, including changes and reforms. Analysis is done alongside other social sciences like public administration, sociology, history, business administration, and law. Just like traditional institutional economics, this approach places institutions at economic analysis by fostering social sciences integration and evaluating them within the historical economic framework.

Organizations identify information and skills; individuals need to maximize profitability. Institutional change becomes important over time as a result of continuous interactions among institutions (North, 2005, p.22). NIE posits that market economy is more efficient in a formal and informal institutional environment. In this case, economic analysis has extended its

focus on institutions, particularly those related with social and legal norms as well as regulations that guide behavior. Extension goes beyond both analyses carried out within earlier institutional economics and neoclassical economics (Ferris and Tang, 1993; Lynn, 1998; Wallis and Dollery, 1999; Yerlikaya and Altan, 2022, pp.144-146). Institutions are created primarily to deal with transaction costs. By using data from different disciplines, this approach emphasizes importance of institutions for promoting economic development and progress, improving our comprehension on fiscal matters. As Dibo (2019, pp.33-38) notes, there are much approaches in NIE that can be outlined as follows:

Rational Choice Institutionalism: According to this theory, independent administrative authorities are capable of dealing with issues that arise from imbalance information under the principal-agent framework. Issues include political instability and adverse selection and others.

Sociological Institutionalism: According to this concept, institutions are important for society that helps determine what is right and wrong. It suggests that giving some freedom to non-partisan government agencies can create system where everyone is answerable to each other.

Historical Institutionalism: This method researches how national governments use international laws for controlling societies. It looks into examining on power relationships among different social groups.

Discursive Institutionalism: This examines how language is used within public policy formulation and implementation, as well as political tradition. Institutional economics did not contribute to a holistic method that was supported by NIE; nevertheless, they allowed for induction at macro analysis (Turgut, et al., 2021, p.408). With a new approach, it is believed that institutional values are shaped by individual behavior, but in the traditional approach, it was argued that social institutions control individuals' behavior. In other words, neoclassical economics is a complete rejection of old approaches, although it is still using some techniques from older economic theories. Institutional concept is incorporated in neoclassical theory in the new approach, hence moving forward with neo-classical analysis (Petrovic and Stefanovic, 2009). When neoclassical economics underwent crisis, transaction cost

approach served for school rebirth. Both adopt an evolutionary method, see economics as non-static science, and attach great importance to history. The issue of imperfect contracts is also analyzed under NIE, whereby agents may act dishonestly in decision-making.

However, people are capable of having dependable contracts by reducing possible risks through relying on their instincts, even if incomplete contracts occur because of limited costs that cannot be avoided (Williamson, 2007, pp.9-10). NIE supporters emphasize on efficiency and study institutional impacts on resources allocation as well as economic performance.

On the other hand, classical institutional economics research proponents focus on restructuring society by altering economics to reflect more on social values, hence improving the overall social welfare (Spithoven, 2019). According to new institutionalists, first method is old-fashioned, weak in logic, and too much focused on group while ignoring individual rational choices. It was also noted that this approach is unable to solve savings problem and remains inflexible with respect to institutions (Dibo, 2019, pp.30-31, Table 1). Content comparison in old and NIE is depicted in Table 1.

Table 1. Important Distinctions between Old and New Institutional Economics
(Source: Petrovic and Stefanovic, 2009; Spithoven, 2019; Turgut, et al., 2021, p.408)

Economic school	Old institutional economics	New institutional economics
Method	Macro, induction	Micro, deductive
Review object	Holistic	Individual
Focus	Organizations that offer different products and services	Incomplete agreements based on individuals
Function of state	Interventionist state and its commitment to social change	Minimal government focused on efficiency
Accepting economic legacy	Rejection of neoclassical economic theory	Based on neoclassical economic principles

It is difficult to say exactly why some countries have done better economically than others. Moreover, it is difficult to obtain accurate information, as the theory is based on assumptions that may not be true in reality. As a result, the framework becomes highly theoretical and therefore fails to offer any meaningful solutions to real problems (Lloyd and Mee, 2016; Grinberg, 2018; Gray, 2018). Recent versions on NIE have looked at power, rent-seeking, and how crises affect economic growth. North and others have also contributed highlighting de jure and de facto authorities' role in taxation taking into account factors like clientelism and access opportunities. Apart from formal institutional setups, NIE has now also focused informal ones – for example, sociocultural practices and norms – in conditioning economic behavior (Gray, 2018).

3 Methodology

3.1 Sample Design

Over 126 million academic publications were reviewed in Semantic Scholar repository. First, 50 documents that had high relevance toward research were

obtained. We included sources that provided these requirements in our design:

- **Geographic Scope:** Is research focused on the United Kingdom, Scandinavia (including Norway, Sweden, Denmark, Finland, and Iceland), New Zealand, or developing countries where reforms are analyzed?
- **Research Area in Study:** Does research focus mainly on policies, governance, public sector, or institutional reforms?
- **Empirical Analysis:** Is there any study that provides deep empirical analysis about specific reform cases? Does it take into account history, identify major players, describe institutional transformations, and provide measurable outcomes?
- **Outcome Measurement:** Does study comprise any numerical or non-numerical reform's impact evaluation or consequence?
- **Methodological Rigor:** Is there case study application approach with sufficient analytical depth in research, or maybe a systematic review, primary empirical research, meta-analysis, or thorough literature analysis?

- **Empirical Foundation:** Is study solely theoretical or conceptual, or does it include empirical case studies/data?
- **Analytical Detail:** Does study deeply analyze reforms instead of giving them a brief mention? If yes, does it include development history, key figures, organizational transformations, and reform effects?

When deciding whether to eliminate each paper, we too considered all questions at once.

3.2 Data extraction

Each column below was extracted from each academic paper. For each column, we provided model with extraction instructions listed below.

Type of Reform and Timeline:

- Determine and extract on health system or public sector reform included in the study. Include the following:
 - Certain years in reforms were implemented.
 - Significant changes in laws or policies.
 - Particular structural adjustments made to public management or health systems.
 - Chronological order of reforms.

If more than one is mentioned, reform periods are listed in chronological order. Use terms like "late 1980s" or "early 1990s" as they occur in the study if specific dates are not mentioned. Note "dates not specified" if no precise dates are provided.

- **Actors and Institutional Changes:**
Extract information about:
 - Institutional players participating in reform (as government agencies and health boards).
 - Modifications on roles and responsibilities.
 - Important policy architects or decision-makers.
 - Organizational restructuring (e.g., separating departments, establishing new agencies).
 - Concentrate on obtaining accurate institutional changes. List changes in methodical order if more than one is described. Include the actors' organizations if their names are mentioned.
- **Theoretical Framework and Reform Objectives:**
Determine and extract the following:
 - Clear objectives and justifications for reform.

- Outlined goals for increased effectiveness, accountability, or service delivery.
- Theoretical supports of reform (e.g., NPM).
- If possible, quote straight from the manuscript. If more than one aim is stated, list or rank them according to importance. Note "objectives not explicitly defined" if there are no explicit goals mentioned.
- **Measurable Results and Performance Evaluation:**
Extract information about the following:
 - Particular performance indicators or results used to assess the reform, quantitative or qualitative evaluations of reform efficacy, enhancement or constraint findings in system performance, and before-and-after reform comparisons. Give priority to concrete or numerical indicators. If results are descriptive, provide main ideas briefly. Note "no specific outcomes reported," if no measurable results are found.
- **Continuity and Theoretical Interpretation:**
 - Determine substantive change degree versus system continuity, theoretical reform trajectories and interpretations, challenges to oversimplified narratives on systemic transformation, and enduring institutional characteristics that are critically analyzed in the study.
 - Take direct quotes that demonstrate the authors' critical perspective. This study underscores the inherent complexity and nuanced character of the proposed reform appraisals.

Country/Region:

- In New Zealand, seven studies were examined.
- Two studies included several nations (Europe, North America, and Australasia – the United Kingdom, New Zealand, and Australia); one study was carried out in the United Kingdom.

Reform Period:

Four studies examined reforms that began in the 1980s, and seven studies examined reforms that occurred in the 1990s.

Reforms in the 2000s were the subject of seven studies.

- One study covered years before the 1990s.
- For two studies, we were unable to locate the reform period.

Table 2. Characteristics of Included Studies
 (Source: Compiled by the authors based on Williamson, 2000; North, 2005, Ostrom, 2010; Pollitt and Bouckaert, 2011)

Study	Country/Region	Reform Period	Study Design	Primary Focus	Full text retrieved
Barnett, et al., 2009	New Zealand	2001–2004	Mixed (surveys, interviews)	Introduction of new forms of the health system	No
Mays, et al., 2000	The United Kingdom	1991/92 to late 1990s	Comprehensive	Quasi-market reforms on NHS	No
Carrier, et al., 2010	New Zealand	1989–2006	Quantitative	Effects of health policy changes on nursing and patient outcomes	No
Pollitt and Bouckaert, 2004	Multiple (Europe, North America, Australasia)	Not mentioned	Comparative	Pathways of public management reform	No
Fougere, 2001	New Zealand	Not mentioned	Conceptual	Health sector restructuring, institutional ambiguity	No
Ashton, et al., 2005	New Zealand	1990s, 1993, and 2001	Conceptual	Health system reform	No
Mulgan, 2008	New Zealand	1980s to 2000s	Analytical	Reform and accountability, NPM	Yes
Hoare, et al., 2012	The United Kingdom, New Zealand, Australia	1998–2009	Realistic review	Government policy and health care	No
Duncan and Chapman, 2010	New Zealand	1986–2008	Analytical	Evolution and revision of NPM model	No
Cangiano, 1996	New Zealand	Mid-1980s	Descriptive	Reforming on the public sector and managing finances	No

Note: “Full text retrieved”: “Yes” indicates whether the full article was available for review; “No” indicates that findings are based on the abstract only.

Study Design:

- A review approach (comprehensive, analytical, or realist) was used in four studies.
- Three studies employed relational, empirical, or conceptual analysis.
- One study combined interviews and surveys.
- Quantitative time-series analysis was applied in one study.

- Descriptive analysis was used in one study.

Primary Focus:

- Four studies addressed management reform or public sector, such as financial management, accountability, or NPM.
- Four studies addressed institutional ambiguity, governance, restructuring, or health system reform.

- Two studies examined patient outcomes, nurse-led care, or nursing.
- One study examined National Health Service's quasi-market reforms.

Thematic Analysis

- **Changes in governance modes:**
 - Main Theme: Governance mode transformations are an important area throughout included studies.
 - New Zealand: According to Barnett, et al. (2009), hierarchical governance was quickly implemented, statutory health organizations were established, and non-government provider networks gradually emerged. They explain how hierarchical and network governance coexist while permanent modifications are made to accountability systems and decision-making procedures.
 - The United Kingdom: Mays, et al. (2000) detailed from National Health Service to quasi-market model, which involves splitting provision and purchasing functions. They state that there was no discernible effect of modifications on system performance.
- **Conceptual analyses:**
 - Fougere (2001), Ashton, et al. (2005), Mulgan (2008), and Pollitt and Bouckaert (2011) highlight ambiguity and complexity of governance reforms. These raise suspicion on oversimplified change, emphasizing resistant conventional accountability systems (such as ministerial responsibility in New Zealand) and reforms tendency to alternate between centralization and decentralization.
- **Nurse-led care:**
 - According to Hoare, et al. (2012), clinical governance adoption largely facilitated nurse-led care development in the United Kingdom, a shift that was not replicated in Australia or New Zealand.
- **Actor Reactions and Institutional Restructuring:**
 - Restructuring institutions is a common occurrence, particularly in New Zealand.
 - Carrier, et al. (2010) described how area health boards were split up into crown health enterprises and regional health authorities, clinical leadership was replaced by generic managers, and then organizations were merged into a single health funding agency.
- Broader public sector reforms, such as establishment of crown entities, state-owned businesses, and ministerial and executive responsibilities division, are described by Mulgan (2008) and Duncan and Chapman (2010). These modifications are frequently accompanied by changes in accountability frameworks and contract-like agreements.
- **Actor reactions:**
 - Despite central government's efforts to impose new governance models, Fougere (2001) and Ashton, et al. (2005) argue local participation persistence and new organizational forms. According to these studies, institutional actors' adaptations to reforms frequently had unforeseen consequences, such as the persistence of local governance structures and slow growth of non-governmental provider networks.
- **Country:**
 - In New Zealand, eight studies were examined.
 - In the United Kingdom, two studies were examined.
 - One study was examined in Australia.
 - Two studies (Pollitt and Bouckaert; Hoare, et al.) included several countries.
- **Outcome Measures:**
 - Four studies concentrated on the healthcare system's structural or governance elements.
 - Three studies evaluated financial management, accountability, and efficiency.
 - One study examined patient's results.
 - One study concentrated on nurse-led care development.
 - A multi-dimensional analysis was performed in one study.
- **Post-Reform Effects:**
 - Four studies documented governance or structural changes as a result of reform.
 - Two studies detailed improvements in financial management, accountability, or efficiency.
 - One study documented improvements in patient outcomes.
 - One study detailed advancements in nurse-led care.

- Two studies found little to no discernible change.
- Change after reform
- We were unable to locate post-reform effect data.

Table 3. System Performance and Measurable Results

(Source: Author's elaboration based on Hood, 1991, Groot and Budding, 2008, and De Vries and Nemec, 2013)

Study	Country	Outcome Measure	Pre-Reform	Post-Reform
Barnett, et al., 2009	New Zealand	Structure accountability, and governance	Not mentioned	Hierarchical governance, statutory organizations, and modified accountability
Mays, et al., 2000	The United Kingdom	Efficiency, excellence, fairness, and accountability	Not mentioned	Not much discernible change
Carrier, et al., 2010	New Zealand	20 negative patient outcomes	Low rates (1989–1993)	Fast reform (1993–2000), slow down (2000–2006)
Pollitt and Bouckaert, 2004	Multiple (Europe, North America, Australasia)	Analyses with multi-dimensions	Not mentioned	Not mentioned
Fougere, 2001	New Zealand	Organizational forms, unexpected outcomes, structure and continuity		
Ashton, et al., 2005	New Zealand	Structure and continuity	Not mentioned	New forms appearing and unexpected consequences
Mulgan, 2008	New Zealand	Efficiency, responsibility, and financial administration	Not mentioned	Maintaining essential elements, structural cycling, increased productivity, but little increase in accountability
Hoare, et al., 2012	The United Kingdom, New Zealand, Australia	Development of care	The United Kingdom advanced, New Zealand/Australia	The United Kingdom: clinical leadership; New Zealand/Australia: minimal alteration
Duncan and Chapman, 2010	New Zealand	NPM, coherence, and structural change	Market-driven New Public Management (1986–1996)	Modifications made gradually and pragmatically (1999–2008)
Cangiano, 1996	New Zealand	Financial Management corporate governance	Not mentioned	Accrual accounting and performance based

• Findings:

- Many New Zealand studies concentrated on efficiency/accountability or governance/structural outcomes, with structural changes being the most frequently mentioned effect following reform.
- Carrier, et al. (2010) the only study that directly evaluated patient outcomes and discovered that negative patient outcomes increased during the reform period and decreased after it.

- Two studies (Mays, et al., 2000; Hoare, et al., 2012) found little to no discernible change following reforms.
- **Chronology and implementation patterns:**
 - Chronology: Reform history is extensively documented, especially in the United Kingdom and New Zealand.
 - State Sector Act (1988) marked reforms in New Zealand. A purchaser/provider split was introduced in 1993, health authorities were consolidated in 1997, and locally elected boards were reinstated in 2001.
 - Quasi-market reforms implemented in the United Kingdom in 1991–1992 had little discernible impact despite later revisions. According to these studies, reform cycles occur with decentralization following centralization periods and vice versa.
 - Implementation: Governance and structure changes were often made rapidly (e.g., New Zealand’s hierarchical governance).
 - Slower in their development, new networks and institutional structures depended more on local actors. Traditional accountability processes and local involvement remain in place, suggesting that reforms were often incorporated into existing institutional frameworks rather than entirely replacing them. Studies offer deep analysis on institutional actors, structural changes, and reform chronology in New Zealand and the United Kingdom with some reference to Australia and more general international contexts.

The following are crucial points discussed by Cangiano (1996), Mays, et al. (2000), Fougere (2001), Ash-ton, et al. (2005), Mulgan (2008), Barnett, et al. (2009), Carryer, et al. (2010), Duncan and Chapman (2010), Pollitt and Bouckaert (2011), and Hoare, et al. (2012):

- There is little empirical support for quantifiable results: Research is conceptual or descriptive, with only one study (Carryer, et al., 2010) providing solid quantitative data on patient outcomes. These findings highlight complexity, ambiguity, and continuity on reforms in the public sector and healthcare system.
- Changes in structure and governance are frequently reported: Although reforms frequently resulted in

substantial changes to governance and structure, their effects on system performance and accountability were either unclear or had limited effect.

- Persisting institutional features: Traditional accountability mechanisms and local participation remained significant features under formal changes, even in reform cycles.

4 Discussion

4.1 NPM and NIE Theories

NPM adopts NIE combination and is based on managerialism, such as agency theory, transaction cost economics, public choice theory, and property rights (Hood, 1991, pp.5-6). Globalization aims an administrative culture focused on efficiency and decentralization by transferring NPM practices around the world. Different market-oriented, political, analytical, and liberal management approaches have been extensively integrated into NPM. Market-oriented management seeks to enhance performance while reducing costs in a competitive environment by splitting services production and delivery, thereby providing public services more efficiently (Özer, 2021, pp.202-203).

Leadership in the United Kingdom is based on incremental change New Zealand/Australia attaches importance to: impartiality, integrity, hierarchy, and citizenship for effectiveness, efficiency, economy, and competitiveness. Many criticisms are directed against the traditional Weberian model on inefficiencies and extreme public expenses. There are also contracts alongside permanent jobs in public service (Dowding, 1993, pp.243-245). It has been proposed that private sector management approaches will enhance customer care as well as increase public sector capacity through government objectives and functions in public goods (Pollitt and Bouckaert, 2011, pp.10-14; Hughes, 2017, pp.50-73; Lapuente and Walle, 2020).

Splitting units in the public sector has eased corporate strategies as well as short-term contract employment while also facilitating limited output that is measured in quantitative. In this regard, performance incentives combined with resource protection and discipline will improve customer orientation (Pffner, 2004; Obińska-Wajda, 2016). Learning organizations within the public sector are believed to better facilitate NPM

implementation ideas and adapt to change and overcome emerging problems. It is argued by some that public administration should take on this strategy to deal with ever increasing modern era complexities and offer bigger, fairer, and enduring solutions (Christensen and Lægheid, 2011; Young, et al., 2020; Osborne and Strokosch, 2022; Stivers, et al., 2023). This chapter explores impact of NIE on NPM with regard to public choice, transaction costs, property rights, and agency theories.

4.2 Public Choice Theory

At every level, whether local or central, people see public administration as system consist of many inter-connected organizations and agents. Specifically, it includes not just the basic framework of such organizations and units but also how they relate with society at large as well as authorities (Rosenbloom, et al., 2022; Farazmand, 2023).

Public choice theory applies economic methods to answer important questions in political science. It studies how people vote, what politicians do, and how government officials act. This theory looks into what government examined to do and not do, with regard to its analysis on interactions between different players within political, civil, and administrative perspectives. It becomes even stronger when combined with constitutional economics (Doğan and Kurt, 2016, p.118).

Public choice theorists discuss that public interest relies on subjective judgments. These critics argue that when government intervenes in economy, it increases corruption both at bureaucratic level and within politics (Özer and Kartal, 2021, pp.50-51). As stated by Özer and Kartal (2021, pp.53-65), theory is based on three core principles.

- **Methodological Individualism:** Public choice theory is based on fundamental assumption that people are rational and they always try to act as to serve their interests.
- **Political Exchange:** Rent-seeking transactions can be compared to trades and occur among individuals participating in politics. This is known as catallaxy, term that explains politics in relation to exchange tactics. In politics, it is easier to protect individual interests those of collectives (Vanberg and Buchanan, 1989, p.61).

- **Rationality and Maximand (Utility Maximization):** Just like in the private sector, the public sector seems to prioritize individual interests first. Parliamentarians support raising unnecessary institutional staff and budgets to provide additional help at their disposal. On the other hand, civil servants may seek for high inflation rates to increase their status and command more respect. As a result, they increase unjustified funds and expenditures in public sector with ineffective civil service and disequilibrium in economy resulting from government interferences in market. Some authors have suggested that social welfare schemes offered through public administration as a way of helping the poor during economic meltdown may be viewed by politicians as gaining maximum votes (Self, 1994; Casady, et al., 2020; Kuhn, et al., 2021; Blom, et al., 2021).

Many theories of how the economy works rely on the idea that the government is the answer to certain problems. But what happens when things go wrong? This is known as "Public Choice," which argues that the state is inefficient in providing goods and services.

Instead, it may do more harm than good by creating its own problem sets. Buchanan believed that tax brackets, the informal economy, and ceiling price fluctuations needed to be addressed through "constitutional constraint."

This would limit the state power to what is absolutely necessary – a view shared by others placing in this tradition. According to constitutional economics, constitutional rules should say exactly how much can be taxed, if money can be printed or loans taken – all that is part of any given constitutional social contract.

Anything outside what is explicitly allowed should have been regarded as damaging society's interests, imposing penalties for unauthorized acts, breaking individual's freedom, or violating the constitution's social contract.

The result is what economists term a principal-agent problem – which may also emerge in corporate hierarchical structures. Only higher-ups (or superiors) can control. Public choice theory argues that there is always going to be problems with the state providing goods and services efficiently: It thinks that this might be solved if different parts of the organization had an

incentive to check on each other – creating "competition" between offices for control.

Since the 1960s, those interested in public choice economics have believed that there is a link between monopoly, limited freedom, and less chance for private initiative; and that this results in public economy failures (in other words, it behaves much like bad market economy).

Much research into how resources are allocated within the public sector focuses on process efficiency – problems caused by rules, laws, etc. which are said to be an integral part of institutions. Some studies conclude that even in highly liberal nations like America where they think individual freedoms really matter, that if about 30% was made available for public use from private earnings by different means, things wouldn't work so well. As a result of this occurrence, people have tended to be very critical on the public sector under NPM paradigm (Williamson, 1999; Groot and Budding, 2008). According to Hood, the study revealed that civil servants act rationally by seeking to maximize their own welfare at expense of public interest. This author supports public choice theory in NPM and encourages performance-related rewards. For example, during the late 1980s in New Zealand, government applied public choice policies to overcome slow bureaucracy within ministries by creating organizations that would operate depending on specified outputs (Hood, 1991).

Public choice theory in practice has allowed setting up reward systems in public service that match with the private sector. Many have supported for outsourcing of some public functions to reduce losses that occur when public organizations act rent seeking. Taxonomies have been simplified, while deregulation steps taken so as to curb corruption among the public officers. Public choice theory (Shaw, n. d.; Negoita, 2018) in NPM approaches aims at improving public services delivery and cutting down red tape. Whether it is or not, this theory too is not free from criticism. It questions pure personal motives in politics while highlighting the role of common well in politics; hence, it poses that social evaluation should take economic entity on society as separate from individualism.

4.3 Transaction Cost Theory

Although exchange of goods and services creates wealth, it also produces "transaction costs." It was first described and examined by John R. Commons in his 1934 book, *Legal Foundations of Capitalism*. "Price" of goods and services is the most obvious transaction cost because it reflects the exchange that must take place for goods to move from producer to consumer. Constant exchange (or "transaction") of goods, services, and information within and between organizations requires communication. In order for this communication to take place, there are many costs including: interviewing, controlling, and coordinating between units. Several costs make up "transaction costs" within market exchange: searching costs, bargaining costs, obtaining property rights and defending them, and selling costs. All of these factors can act as a deterrent to an exchange taking place, thereby inhibiting specialization and trade – two crucial components to economic growth and efficiency, because; "transaction costs" have a tendency to slow down or prevent trade from taking place, economists have sought ways to minimize or get rid of them altogether. To reduce transaction costs is to trust someone; trust means not having to spend time and energy on ensuring that both sides are keeping their bargain. Also if there is justice when trade or exchanges go wrong, transaction costs can again be reduced. Thus, trust in people you trade with and systems that back support or exchange (education, legal, political, or economic systems) reduces transaction costs, fosters greater trade (exchange), and increases professional specialization that leads to wealth.

Strategic decisions about transaction management, contracts, and agreement structures are informed by vertical integration. Transaction cost and production expenses are planned carefully when one assesses how best services should be offered. To make it easier for decisions and for action plans, such contracts define objectives, functions, and performance standards (Zajac and Olsen, 1993; Verhaegen and Huylenbroeck, 1999). Taking into account transactional costs, public administrators may plan contracts that reduce opportunism and improve service quality. Comparing bureaucracy expenses and top-down decisions, managers

can determine cheaper alternative organizational arrangements and decision-making mechanisms (Ferris and Tang, 1993; Lynn, 1998; Wallis and Dollery, 1999; Dollery, 2005).

Oversimplification of public administration's complex nature appears an important issue. Public administration is so complex that it becomes impossible to draw all costs into transactions, as there are many people involved in the decision-making process who have different purposes and interests. Additionally, in public administration, one cannot always assume that people behave rationally and have perfect information, unlike what is assumed in transaction cost economics. Public officials and decision-makers may not always follow predicted rational behavior as there is asymmetric information and other factors acting against it in politics and public service (Ferris and Tang, 1993; Lynn, 1998; Wallis and Dollery, 1999; Dollery, 2005).

Transaction cost theory suggested by Williamson provides improving public organizations through analyzing relationships between its components. According to this theory, there are only two choices for government regarding to public service provision: either direct provision or contracting. NPM has been seen to affect efforts for outsourcing as well as privatization under this theory. For instance, it was observed in the United Kingdom during the 1990s that National Health Service outsourced some auxiliary services and this could be explained by transaction costs influencing on administrative functions. Using optimum resource, reduction in uncertainty all come as a result of clearly defined property rights. This agrees with NPM which encourages identification of one's property and responsibility as seen in public enterprises and reforms in asset management. This theory has been applied in Sweden and presents to accountability on public services and is based on performance yet under government control.

Furthermore, agency theory is based on accountability systems in NPM. NPM operationalizes agency theory with performance contracts, reporting requirements and incentive structures, for example; Australia uses performance-based annual contracts to public managers (Dollery, 2005; Williamson, 2007; Terman, 2011; Hansen, 2020; Chen, 2024).

4.4 Property Rights and Agency Theory

Law recognizes two types on property rights: absolute and partial. Different people have property rights depending on which they are in economy, and these rights affect their behavior and, therefore, all economic system (Derya, 2017, pp.1105-1106). Internalization of external costs will be made easier and economically better if there are well-defined property rights. Asset is anything that one can have several options on, such as being able to take advantage over other people, as well as assessing and preventing possible harm (Obińska-Wajda, 2016).

Agency theory takes relationships that extend beyond traditional principal-agent regulation to include resource relationships, and theory deals with tracking relationship partners in resource-exchange relationships, whether relationships involve parties in organization or outside (Müller and Schmitz, 2016).

Sometimes, agent acts in their own best interest instead of principal. To mitigate this possibility, principals suffer tracking costs: "It may cost principal some money or effort to ensure that agent acts in principal's best interests." For Şişmanoğlu, et al. (2020, pp.982-983), there are three agency costs: tracking costs, which we just defined; bonding costs, costs an agent suffer to reassure principal; and residual loss, representing total cost tracking and bonding. Agents often have narrower perspective from principals, and principals may not always be able to anticipate what an agent is likely to do in situation, and so tracking becomes important to ensure that the agent acts in principal's best interests. Tracking can also be important in mitigating risks associated with transactions high in both risk and uncertainty.

According to Tosi, et al. (2003), contracts (including formal contracts as well as less formal agreements) play an important role for principals and agents alike because they communicate expectations regarding roles and responsibilities. In this context, setting objectives and evaluating agent performance relative to those objectives can help both principals and agents take appropriate action.

For principals – often public officials who need to understand whether a contract made with an agent has been carried out successfully – the ability to evaluate

agents' performance relative to agents' contractual obligations is particularly important. In public service, agent performance information availability often requires public service providers to report, and there to be transparency as to what agents do; so, as Williamson (2000) points out, this represents "bridge for information gap in agency relations."

This theory explains that there are two major problems in public administration, that is, adverse selection and moral hazard. It is adverse selection when the principal signs a contract not knowing well enough the agents' capacity or intent. Take, for instance, a scenario where the government agency may fail to comprehend the abilities and driving factors of a contractor when hiring him for a particular project. On the other hand, moral hazard may occur if an agent executes disapproved acts which the principal cannot see or control (Wallis and Dollery, 1999; Dollery, 2005; Lane, 2020).

4.5 Relationship between NIE and NPM

Different structural and cultural components in NPM and subsequent reforms make the public sector turn into a complicated patchwork of strategies that may not be in line with simple assumptions on classical economic theories. Nevertheless, NIE has played a great

role in improving NPM and public management as a whole. By taking this approach, it has become possible to set up management systems that are both transparent and accountable; this has enhanced transparency and accountability while also creating mechanisms through which government can offer public services effectively (Williamson, 2000; Groot and Budding, 2008; Basu, 2016; Hijal-Moghrabi, et al., 2020).

NIE removes bureaucratic barriers, which leads to faster decision-making, creativity and flexibility in public sector, NPM reforms greatly influenced, because; these NPM initiatives are enhanced in their capacity to learn, adapt and keep changing through important cultural and normative diversities.

In addition, this flexibility has made it possible for service delivery. These include quasi-markets and public-private partnerships because they still maintain centralized decision-making. Transfer of NPM ideas into an administrative system has led to market-oriented, customer-focused, and performance-driven strategies in public administration (Groot and Budding, 2008; Lapsley, 2008; Pillay, 2008; De Vries and Némec, 2013; Osborne, et al., 2015; Basu, 2016; Mansour, 2018). NIE's influences are shown in Table 4.

Table 4. Use of NIE to Inform NPM

(Source: Verhaegen and Huylenbroeck, 1999; Özer, 2021, p.218)

Theories	Domains	Contribution to new public management	Strategy
Public choice theory	Political, economic, bureaucratic, social	Reducing size of government, ensuring accountability, and implementing controls through constitutional provisions, while streamlining legal and bureaucratic processes to address social requirements	Managerial strategy: Administrative clarity and professional accountability
Transaction cost theory	Bureaucratic and economic development	Deregulation seeks to grant public managers increased autonomy and options – while simultaneously lowering bureaucratic expenses and improving savings within the public sector	Market and progressive change strategy: Addressing challenges of enhancing service delivery quality, stability, and affordability
Property rights and agency theory	Political, bureaucratic, economic	3Es – Economy, efficiency, and effectiveness – underscore the importance of distinguishing policy development from service delivery. Furthermore, public sector compensation systems should be grounded in performance.	Program strategy: Allocating resources by objectives and goals

Traditional public administration has limitations that could be solved by NPM since it evolves with changes in politics and economics and applies fundamentals from NIE (Page, 2005). NPM analyzed how important institutions operate in the public sector.

It includes creating transparent organizational governance, ensuring that organizational behavior supports institutional aims, eliminating red tape from organizations, and concentrating on how management techniques depend on the economy and institutions (see Table 4).

NIE's major input in state reorganization can be seen through organizational reforms implementation in public institutions. As a result, public policy formulation and implementation processes are now better separated. Political advisers in decision-making processes have been part of separation that has enhanced executive function within bureaucracy. In particular, NIE's focus on reducing transaction costs links with NPM efficiency. Transaction cost theory in NIE and the NPM methodologies both seek to eradicate inefficiencies and make organizations operate effectively. Too many strict rules increase costs doing business (transaction costs) and prevent entrepreneurship. Centralization is believed to increase transaction costs. NPM initiatives are driven by property rights and use performance contracts as well as measurable output for defining roles in public organizations. These contracts ensure that performance-oriented pay on output and results.

Agency theory works well when public utilities are privatized or when it presents alternative public service delivery mechanisms. Multi-centered governance analysis by Ostrom and other colleagues played a big role in NPM. Through this analysis, they proved that it is possible for system with many decision centers to work smoothly without being controlled from top down, which posed a challenge to traditional centralized methods. As a result, decentralized models on service delivery and common joint ventures were formulated during NPM reforms. Water resource management reforms within metropolitan areas across the United States led to the establishment of specialized function-based administrative units as opposed to consolidated metro authorities (Ostrom, 2010). It becomes complex applying NPM in the public sector because of non-profit character in public services despite all above stated advantages.

Focusing too much on market fundamentals jeopardizes social justice and compromises serving public ethic (Schneider and Doner, 2000; Meramveliotakis, 2020; Stein, 2021; Chau and Pham, 2021). In the World Bank report "The State in a Changing World," Peter Evans emphasized the need for enhancing state capacity to regulate markets. In his lecture entitled "Redefining the Role of the State," Stiglitz argued that South Asian debacle calls for discarding minimal state notion while posing that it is crucial to reformulate what state should really do (Levent, 2006, pp.23-27).

Public management reforms worldwide and in OECD countries have been greatly affected by NIE. Using agency theory to deal with bureaucratic self-interest, transaction costs, organizational boundaries, and property rights and to design responsibility structures, New Zealand included public choice theory in reform agenda. While these changes initially increased efficiency, they later revealed problems with coordination and social justice. The United Kingdom took a more cautious stance on changing property rights, but it still applied agency theory and transaction cost economics in public sector reforms.

Research into semi-autonomous organizations (quangos) has shown annual productivity increases of 3% to 5%. Difficulties in balancing autonomy and control during reform process and political obstacles in NIE principles are available. Drawing on NIE, public management research can better illuminate the often overlooked significance of institutional functioning in advancing public values, ways to adapt reforms to local government which are holistic rather fragmented. These reforms have drawn criticism for granting disproportionate power to managerial elites and private contractors at the expense of the traditional bureaucratic apparatus, for creating a hybrid public personnel system that performs both bureaucratic and entrepreneurial functions through new institutional market – based mechanisms within old-style bureaucracies.

In many cases, NPM changes failed to reduce overall transaction costs; instead, they created additional transaction costs associated with measuring performance. Transforming large bureaucracies into specialized agencies on transaction costs has led to coordination problems.

Agency theory has failed to meet many principals' different goals. This has resulted in reduced participation,

limiting accountability (Dollery, 2001; Terman, 2011; Hansen, 2020; Chen, 2024). It ignores cultural and historical differences emphasized by North in his subsequent publications when presupposing that identical formal settings would produce similar results globally. Anglo-Saxon nations, for example, the United States and the United Kingdom, prefer autonomy and structural separation, using subcontracting and performance-related pay on market mechanisms.

Privatization, performance measurement, and decentralization are not very advanced in continental Europe and are also moderate. Customer focus and decentralization are very strong in Scandinavia, but again, public service marketization is not very advanced. Empirical studies in developing countries highlight important institutional capacity for success on NIE inspired reforms. Political economy factors affect how reforms perform. Anglo-American bias in NPM practices fails to take into account unique state–society relationships found within Napoleonic, Germanic, and Scandinavian governance models. NPM reforms in developing countries have led to isomorphic analogy, which can be described as frontline reform that meet aims yet does not improve administrative efficiency.

Future scholars should evaluate public administrators as bricoleurs who combine different managerial elements but not follow NIE in public administration strictly. Transaction costs should take into account democracy values, equality, and institutional potential. In addition, there is a need for the evaluation of frameworks on public value performance. Cross-level comparative research would be worthwhile and may explore hybrid governance modes that integrate NIE and post-NPM perspectives. NPM is complex, debatable, and paradoxical reform process with democratic strategies and not just NIE principle application. Relation between NIE and NPM shows that public administration reforms transform mechanical theories to contextually sensitive institutional approaches with such variations seen under different socio-political and economic environments (Alston, 2008; Hamerschmid, et al., 2016; Fabrizio and Guashino, 2020; Vaishali, 2024).

5 Conclusion

Old institutional economics supported the model where state intervenes, taking into account pragmatic and holistic approach which highlights the general nature and economic science. NIE adopted a different stance from classical theoretical economics that was characterized by a microeconomic focus. It is believed that people would behave rationally in the economy if they were given freedom and attention was paid to effectiveness and efficiency. Thus, there is no need for government to file individual choice freedom.

Economic growth as a function of social change was stressed by both approaches. As NPM emerged in the 1980s with its call for "small, but strong state," it supported reducing state intervention and increasing market forces. NIE, with public choice, property rights, agency, and transaction cost theories, has revolutionized public administration. In fact, public choice theory has probably had important impact on modern public management. It holds that efficiency in financial resources is no more important than upholding political, administrative, legal, social, and ethical standards.

Transparency is the aim of property rights and agency theories when it comes to political accountability for public resources and assets. By creating contractual bilateral relations, these theories try to prevent bureaucratic abuse (attitudes and actions) from wasting resources. Resource allocation within time and space limitations and services aligned with popular desires will, according to them, stem from better governance on principal–agent relationships. Through public administration's flexibility and visionary leadership that fits to strategic management rules transaction cost theory authorizes public administrators as entrepreneur in small, flexible organizations that do not compromise service quality or performance objectives even as they cut costs. All three theories emphasize the dynamic significance interplay among formal and informal institutions that shape economic outcomes as well as transactional cost implications for public management.

Reform can be encouraged by institutions at grassroots level for change. NIE calls attention to malfunctions in public organizations. NIE emphasizes on inefficiency

public organizations. Important perspectives are responsibility, better public services, and open and transparent administrative systems.

Controllers in the public sector have to behave in professionalism by focusing on organizational performance so that institution can work effectively in public services. When public administrators have aim and vision, they will adopt approaches that are not very centralized but rather adaptable. This approach protects public administration from formal superior-subordinate relations. As a result, it should improve public administration capacity to support rationality choice and appropriate action. NIE has played an important role on how NPM has provided public administration solutions, although there are some difficulties applying economic theories in public administration; it is worth trying since it promotes better accountability and efficiency. Nevertheless, to provide fair and reachable public services, we must balance market-driven approaches with public interest in NPM. These two approaches focus on restructuring public administration toward being more flexible and more adaptable to change. It is important that they follow theoretical progress, and their impacts will also change policy makers due to reform outputs achieved by professional administrators.

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