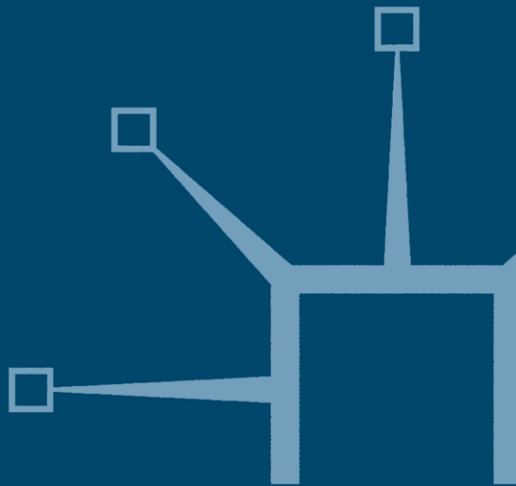


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Engaging Public Sector Clients

From Service-Delivery to Co-production

John Alford



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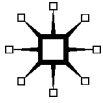
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For Sue

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Preface

It is commonly assumed that if public sector organisations provide poor service to their clients it is not only because they usually have no competitors but also because they don't get their funding from their clients. Hence they have no incentive to treat clients well, unlike their private sector counterparts.

This stereotype overlooks one powerful reason why public sector organisations might be impelled to pay attention to their clients: they need clients to contribute time, effort, information, and compliance to the achievement of organisational purposes. Put another way, they may find it difficult to deliver services without clients *co-producing* those services. Unless clients do this work, the organisation will fail to achieve its service mandate, or at least find it more difficult or costlier to do so.

Client co-production for government organisations can be compared to sales revenue for private businesses. Just as private businesses need their customers to provide sales revenue to prosper and survive, so too do government agencies need their clients to provide co-productive effort. And just as private firms need to offer something of value to their clients to persuade them to pay for their products, so too do public sector organisations need to offer positive incentives to induce their clients to co-produce.

Thus, although public sector organisations are quite different from private businesses, their reliance on client co-production subjects them to analogous challenges, reflected in the ambiguous title of this book. *Engaging* clients is first about recruitment: when might it be useful to enlist client co-production? It is secondly about motivation: how can organisations attract and retain the services of clients? The answers to these questions offer insights not only into relationships between organisations and their clients but also into public management more generally, and even into the nature of civic life.

Introduction: Client Co-production of Public Services

Clients as co-producers

Normally when we think about the consumers or clients of public sector organisations, we conceive of them as people who *receive* the services delivered *to* them. In this perspective, the organisation is the active participant in the relationship, whereas the client is the passive recipient. But this model neglects the fact that, in many areas of government activity, clients necessarily play a role in *producing* the services.

Consider health services, which take up a large proportion of most governmental budgets. In even the most conventional health activity – the treatment of sick or injured patients – the service-deliverers, such as doctors or nurses, do not by themselves cure or even alleviate the conditions of those patients who are conscious and functioning (Lengnick-Hall 1995). They rely on patients to behave in certain ways, such as resting properly and to undertake certain actions, such as taking their medicines or undergoing physical therapy. If their condition is terminal, patients need to do emotionally difficult work in coming to terms with their fate and settling unfinished business with loved ones (Heifetz 1994, 73–6). But of course, the treatment of those who are already sick is only one aspect of health. There is an increasing emphasis on health programs that *prevent* disease. These typically call even more for work on the part of those they cater to, in undertaking regular exercise, eating healthy diets and pursuing balanced lifestyles. The desired outcomes, such as fewer people incurring cancer or heart disease, cannot be achieved unless the clients do this work.

Consider waste recycling, an increasingly important issue in a world of finite resources. Most local government authorities, who are typically responsible for garbage collection, are concerned to ensure that certain categories of rubbish, such as glass, cans or paper, are recycled, to promote environmental amenity and resource conservation. This recycling cannot be brought about solely by the efforts of local councils' employees or contractors. Unless we as householders make an effort to separate out these types of garbage and place them into separate containers or bundles, for collection by contractors, recycling is very difficult to bring about. It is virtually impossible for the contractor to separate the garbage once it has been deposited into bins. To induce us to perform this task, councils resort to various devices, such as prohibiting the depositing of bottles in degradable waste bins, charging more for larger bins or providing separate containers for glass or cans.

In these public services, therefore, the question of who is the producer is more complex than appears at first sight. It is not simply the case that the organisation provides the service to the client. Rather, the production of the service, or more generally the realisation of some of the purposes of providing the service, is partly performed by the client. These are examples of client co-production, which is the subject of this book.

As a routine part of our lives, it is a phenomenon we don't notice very much. Partly this is because it is counter-intuitive. In our daily economic transactions, we see clients as *consumers* of goods and services from organisations, whereas co-production casts them as *suppliers* – of labour, information or expertise. To think of them as doing some of the organisation's work is to contradict our commonsense understanding that their role is simply to pay money for its products. But although client co-production is somewhat invisible to us, it turns out to be of immense significance, not only for the functioning of the public sector but also for our understanding of many areas of social life.

Client co-production is everywhere

First, a lot of public sector activity (and for that matter, of private sector activity as well) entails client co-production. Most of the big-spending areas of government, as well as the minor ones, rely on contributions of time and effort by their clients. Consider education, which like health makes immense calls on the public purse. Students don't become educated just because teachers teach; they also have a role that complements

that of the teachers: they engage in learning. This role is an active one. They need to take notes, contribute to class discussion, read texts, do experiments, write papers, and hopefully reflect critically on the knowledge and ideas to which they are exposed. A whole corpus of education theory underlines the importance of this student role. Increasingly since the 1960s, expert pedagogues have sought to enhance and underpin this role (see, e.g., Fosnot 1996; Shapiro 2003).

Alternatively, consider policing, which provides the framework of law and order. In the basic work of responding to crimes already committed, police officers rely on citizens to report offences, provide witness statements or even to intervene temporarily in socially threatening situations. More extensively, crime prevention relies on householders to secure their homes, install alarms and mark their goods, and beyond that to contribute to well-functioning communities in which antisocial behaviour is minimised.

In these and a whole raft of other activities – from species conservation and tackling global warming through welfare services and litter control to road safety and fire services – government organisations need ordinary people, who in many cases are their clients, to act in particular ways which contribute to the achievement of their purposes. The managers of those organisations who ignore their clients will miss potentially significant capabilities and resources.

Of course, this phenomenon also has its counterparts in the private sector. Consider the customer in a supermarket. Whereas previously at the corner grocery, the task of removing goods from shelves and carrying them to the cash register was performed by the shop assistant behind the counter, in the modern supermarket that work is done by the shopper. Similar observations could be made about retail banks with automatic teller machines and self-service petrol stations. The role of the customer is particularly relevant in the service sector. In a pioneering study entitled *The Service Economy*, Fuchs (1968) concluded:

One lesson that our study of productivity in the service industries keeps forcing upon us is the importance of the consumer as a co-operating agent in the production process... Productivity in many service industries is dependent in part on the knowledge, experience and motivation of the consumer. (pp. 194–5)

Toffler (1980) saw this process as a conflation of the roles of the producer and the consumer, and he calls it the rise of the 'prosumer' (see Handy 1989, 81–2; Bettencourt et al. 2002).

This interest has not surprisingly flowed into the literature on services marketing, with references to the customer as a 'co-producer' (Schneider and Bowen 1995; Lengnick-Hall 1996), as a 'human resource' (Bowen 1986), as a 'partial employee' (Mills and Morris 1986), and suggesting that companies 'co-opt customer competence' (Prahalad and Ramaswamy 2000).

More recently, the concept has been taken up in other fields of private sector management. In knowledge management, von Hippel (2005) explores what he calls the 'democratizing' of innovation, the central facet of which is the elevation of users to the role of product or service developer, hitherto the preserve of the manufacturer. In the field of operations management, the topic of 'supply chain management' in particular has led a number of writers to focus on the active role of the customer, in service design (Reid and Sanders 2007, 83–4) or buyer–supplier interactions (Finch and Luebbe 1995, 153–7), through customer involvement in processes (Krajewski and Ritzman 1996, 105–6), technology with active customer interaction (Slack et al. 1998, 299–300) and collaborative supply chains (Emmett and Crocker 2006, 37–8).

In the strategic management literature, the notion of 'co-creating value' with customers and other stakeholders, through their involvement in product or service design and delivery (Prahalad and Ramaswamy 2004) has attracted considerable interest. Related to this is the idea of 'interactive strategy design' which focuses on multi-directional reciprocal relationships between firms, customers and other actors with the explicit label of 'co-production' (Normann and Ramirez 1998).

However it is defined, it is clear that co-production looms large in many customer relationships in the business sector. To the extent that this sector has devoted attention to this phenomenon, it offers insights into its public sector counterparts.

Co-production is (back) in fashion

Second, in the past decade co-production has assumed increasing significance in the agenda of public sector reform, re-emerging after a previous flurry of interest in the early 1980s.

Until the end of the 1970s, the dominant paradigm in public administration (as it was then described) was one of direct government production. As Frederick Mosher explained in 1980, in terms applicable to most governments:

In decades gone by, most of what the federal government was responsible for and expended money for it did by itself through its own

personnel and facilities. Consequently, much of the doctrine and lore of federal management, like that of private enterprise, was based on the premise that its efficiency rested on the effective supervision and direction of its own operations. (Mosher 1980, 541)

While this was true of the doctrine, it had always been less true of the actual practice of government. Since modern governments evolved, they have always relied to some extent on people other than their own employees to perform some of their activities (Schultz 1977; Rose and Miller 1992; Self 1993; Smith and Lipsky 1993; Grabosky 1995b). Among the many forms this took were the delegation of regulatory responsibilities to private agents, the purchase of goods and services from private for-profit suppliers and a reliance on volunteers to carry out emergency duties such as firefighting and welfare support (Sturgess 1996). But towards the end of the 1970s, the dominant paradigm began to be subjected to even more questioning. A combination of antipathy to big government, tax 'revolt', de-regulationist sentiment and budgetary constraints prompted consideration of alternatives to internal governmental production (Salamon 1981).

One set of such alternatives entailed the marketisation of public sector activities. Most prominent among these were privatisation and contracting out (Savas 1983; Pirie 1986; Kristensen 1987; Wolf 1988; Hughes 2003), but paving the way for them were various initiatives adopted from the private sector, known collectively as 'managerialism' (Pollitt 1990; Considine and Painter 1997).

The other set of alternatives emerged under the general rubric of *co-production* – the involvement of citizens, clients, consumers, volunteers and/or community organisations in producing public services as well as consuming or otherwise benefiting from them (Sharp 1980; Whitaker 1980; Parks et al. 1981; Brudney and England 1983). It appealed less to market incentives and more to the voluntary co-operation of individuals and groups in the community, and dovetailed with support for greater levels of citizen and client participation in community and public affairs, popular since the 1960s (Levine 1984).

However, since the mid-1980s, interest in co-production has been less intense. In the late 1970s and early 1980s, it attracted almost as much attention as marketisation (Savas 1983; Kiser 1984, 505; Levine 1984, 181). But whereas privatisation and contracting out have been enthusiastically adopted by governments around the world (for overviews, see Donahue 1989; Smith and Lipsky 1993; Prager 1994; Hodge 1999), co-production attracted little official interest for a decade after

the initial flurry (see Wirth 1991; Hupe 1993). In the battle for practical acceptance, marketisation decisively won the 1980s round.

Perhaps the major reason for the atrophy of official interest in co-production is that it has been perceived as being about *volunteers*, that is, people supplying time, effort or money to public agencies on a voluntary basis. This was much too dependent on altruism, which in a climate where market incentives are the dominant currency, seems far too unreliable a motivation on which to base important public functions. But this emphasis overshadowed co-production by *clients*. Whereas volunteers are analogous to the suppliers of inputs to the firm, clients are analogous to its buyers. This conception of co-production was largely overlooked.

In the second half of the 1990s, a view began to crystallise that contracting out may not be a panacea for improving government finances and enhancing service-quality, as it started to run up against practical problems of implementation over time (Donahue 1989; Boston 1991; Self 1993; Smith and Lipsky 1993; Stewart 1993; Stretton and Orchard 1994; Alford and O'Neill 1994). These problems had to do with the mechanisms that lay at the heart of the contractual model: the difficulties governments face in clearly specifying what they want from contractors and monitoring whether they get it, and in replacing contractors who perform unsatisfactorily (Hood 1986, 100–4; Donahue 1989). At the same time, there was a well-founded resistance to resuming an emphasis on direct government production. The evident shortcomings which prompted interest in service-delivery by external agents since the 1970s had been underscored by the experiences of the former Soviet bloc countries in dismantling massive systems of state-run and controlled production. Whilst there might be an increasing scepticism about the 'contract state', very few people were calling for a return to the 'producer state'.

Perhaps the most dramatic exemplar of this sentiment was the success of the book *Reinventing Government*, by Osborne and Gaebler (1992). This work, explicitly endorsed by President Clinton, was the inspiration for the National Performance Review of the US Federal Government, chaired by Vice-President Gore (1993). It was enthusiastically adopted by scores of governments throughout the world, including those of the United Kingdom (Butler 1994), New Zealand (Boston 1996) and many countries in South East Asia. It directly informed the radical reforms to the public sector by conservative governments in Australia (Victorian Commission of Audit 1992, vol. 2; National Commission of Audit 1996).

Reinventing Government tapped a wellspring of feeling about the producer role of government:

For the past 50 years, most public leaders have assumed that government's role was one-dimensional: to collect taxes and deliver services. ... But when economic growth slowed and fiscal crisis hit, the equation changed. Now when problems appeared and voters demanded solutions, public leaders had only two choices. They could raise taxes, or they could say no... [In] state and local government, where budgets have to balance, they began to look for answers that lay somewhere between the traditional yes and no. They learned how to bring community groups and foundations together to build low-income housing; how to bring business, labour and academia together to stimulate economic innovation and job creation; how to bring neighborhood groups and police departments together to solve the problems that underlay crime. In other words, they learned how to facilitate problem solving by catalyzing action throughout the community – how to steer rather than row. (Osborne and Gaebler 1992, 27–8)

Osborne and Gaebler went on to canvass 'no less than 36 separate alternatives to normal public service delivery', one of which was 'co-production or self-help' (pp. 29, 31; see also p. 341). It included an extensive discussion of 'empowering citizens' which considered many of the kinds of processes that fall within the definition of co-production: community policing, parent involvement in schooling, community homes for juvenile offenders, patient-controlled AIDS programs and tenant-run housing projects (pp. 49–75).

Many governments, particularly conservative ones, drew upon *Reinventing Government* selectively, in that they emphasised its market-based measures such as contracting out, vouchers and increased competition among service-providers. But the book's widespread appeal derived from its enthusiastic advocacy of a variety of alternatives to direct government production, and this in turn gave added legitimacy to market-oriented measures adopted under its mantle (Moe 1994; Kettl 1996; Weaver 1996).

A parallel development was the renewed attention to the role of community in fostering citizenship. Etzioni (1994) called for a revival of the 'spirit of community' as an alternative to emphasising either market or government mechanisms, a call which attracted attention from figures as diverse as British Prime Minister Blair and US

Presidents Bush (senior) and Clinton. Putnam (1995) lamented the decline of 'social capital' in America, that is, of features of social organisation such as networks, norms and social trust that facilitate co-ordination and co-operation for mutual benefit. He assembled considerable empirical data to show that the level of organisational affiliation and membership among Americans had dropped substantially in the preceding two or three decades. He called for a rebuilding of the institutions of civil society as essential underpinnings for 'networks of civic engagement', which 'facilitate co-ordination and communication, amplify reputations, and thus allow dilemmas of collective action to be resolved' (p. 67).

Thus, the circumstances were ripe for revisiting *non-contractual* alternatives to direct production by government. This has been an important reference point in the continuing evolution of public management since the mid-1990s, as it has moved beyond the 'New Public Management' in both its managerialist and contractualist manifestations (Kaboolian 1998; Pollitt and Bouckaert 2000). Increasingly observers are pointing to a post-managerialist world which entails more complex relationships than those between buyers and sellers or principals and agents, such as network governance, public value management, collaborative government, public-private partnerships, outcomes management and joined up government (e.g., Moore 1995; Bardach 1998; Mandell 2001; Agranoff and McGuire 2003; Pollitt 2003; Perri 6 2004; Huxham and Vangen 2005; Stoker 2006).

Co-production was an important aspect of the Third Way perspective led by former British Prime Minister Tony Blair. It has been taken up explicitly or implicitly in many UK government programs, such as welfare services, public housing, local environmental initiatives and services for young people (see Kelly and Muers 2002, 26-7). It has been sustained intellectually by key New Labour think tanks such as Demos (see, e.g., Hargreaves and Christie 1998; Leadbeater 2004; Mulgan 2006; Parker and Gallagher 2007) and the Institute for Public Policy Research (see, e.g., Keaney 2006; Bennett and Cooke 2007; Lewis 2007). It has been embraced enthusiastically by Blair's successor, Gordon Brown.

In the United States, co-productive arrangements figured in many initiatives within the Clinton presidency's Reinventing Government framework and the National Performance Review (see also Hillary Clinton 1996), and while not sustained by the Bush administration, they constitute important approaches among others pursued by many state and local governments. Barack Obama has included co-production and community involvement initiatives among his policy positions. He

has called for initiatives in health care, education, prisoner rehabilitation and poverty-reduction which have co-production aspects to them (Obama 2007).

In Australia, the involvement of service users not only in design but also in production of services has been an important strand of post-managerialist approaches at state and federal levels. The LandCare program enlists farmers and community volunteers in the protection of rural lands from soil erosion and salinity. Co-production also looms large in public housing, national parks management, auxiliary assistance to hospital patients and welfare services.

In summary, co-production of various kinds is very much on the agenda of governments as they emerge from managerialist and contractualist forms of public administration.

Public management insights

Third, understanding client co-production can give us insights into public management more generally, especially as the public sector undergoes a transition into a post-managerialist era. One is that it can enrich our understanding of an increasingly important aspect of public management: the drive to adopt a client focus and enhance client service (Osborne and Gaebler 1992; Barzelay and Moukhebir 1996). In particular, it offers a rationale for paying attention to clients which public management has overlooked. This neglect is exemplified graphically in the book *Reinventing Government*, which laments the lack of client focus in the public sector thus

Most American governments are customer-blind, while McDonalds and Frito-Lay are customer-driven... Why is it this way? Simple. *Most public agencies don't get their funds from their customers.* Businesses do. If a business pleases its customers, sales increase; if someone else please its customers more, sales decline. So businesses in competitive environments learn to pay enormous attention to their customers. (Osborne and Gaebler 1992, 166–7, emphasis in original)

Nevertheless, the idea of co-production holds out a very compelling reason for public managers to pay attention to clients: they are potential – and often necessary – contributors of time and effort towards the achievement of organisational purposes. To the extent that they co-produce effectively, they can enhance the performance and reduce the costs of public agencies. In some cases, as discussed later in this book,

public agencies simply cannot function without client co-production. Knowing about client co-production, therefore, is as important for public sector managers as understanding marketing is for private sector managers.

More generally, client co-production can add to the repertoire of institutional arrangements available to public sector organisations in seeking to achieve their purposes. Under traditional public administration and NPM, the choices were limited to various forms of hierarchy and market. The post-NPM model is one in which 'networks' or 'collaboration' are added to hierarchies and markets as institutional frameworks (Rhodes 1997; Agranoff and McGuire 2003; Huxham and Vangen 2005; Stoker 2006). The notion of client co-production helps to build a more nuanced picture of the range of possible relationships available to government agencies post-NPM, beyond those of superior-subordinate dealings, purchaser-provider splits or partnerships.

Related to this is that examination of client co-production sheds light on a more complex set of motivators of behaviour than those assumed in NPM or indeed in traditional public administration. Based as it is on a market model with its grounding in economics, NPM assumes that individuals are simply self-interested utility-maximisers (Thurow 1983; Edwards 2007). Of course, economists will protest that they recognise that people are motivated by other things – which they usually put together under the heading of 'altruism' – but these other things do not figure in the working mechanisms of their economic analyses. Instead, they are seen as exogenous factors, that is, as 'givens'. The analysis in this book teases out a range of motivations which cannot simply be reduced to the easily dismissable rubric of altruism, including intrinsic, solidary, and normative motivations. Moreover, it treats them as open to influence, not simply as immutable 'givens', and explores some of the ways in which government agencies can appeal to them. These insights can help inform our knowledge of other types of relationship in the emerging new phase of public sector management. A better understanding of the workings of client co-production can therefore add to the panoply of what Salamon (2002) has called the 'tools of government'.

Client co-production: The issues

This book seeks to contribute to our understanding of the co-production relationship between the government organisation and the client. It

considers what prompts each party to take part in this relationship, by addressing two questions:

1. In what circumstances is it beneficial for a government agency to utilise client co-production?
2. What induces clients to contribute their time and effort to the co-production of public services?

There is an implicit exchange in the framing of these two questions: the first concerns what public sector organisations *receive* from client co-production, whereas the second concerns what they have to *give* to elicit it.

These questions have a managerial frame of reference. They are asked from the perspective of the government organisation, and to that extent are instrumentalist in character. In particular, they may imply that the public sector client is an object to be somehow manipulated by the government organisation, just as private companies are seen to manipulate their customers – a perennial criticism of the adoption of ‘managerialist’ techniques in the public sector. But, as I hope the book will make abundantly clear, the questions are not ‘managerialist’ in the narrow and perhaps pejorative sense of that term.

First, they are founded on a recognition of the distinctive character of the public sector, in particular, that it creates *public* value as well as private value (Lax and Sebenius 1986; Stewart and Ransom 1988; Alford 1993; Moore 1994, 1995). Of course, what constitutes public value is much debated and is the stuff of policy deliberation in a democratic society, so any attempt to list or categorise it is a hazardous enterprise. However, perfect agreement on its precise boundaries is not a precondition for exploring what public value clients might co-produce. Three basic elements (Bator 1958; Stokey and Zeckhauser 1974; Hughes, 2003; Weimer and Vining 2004) are as follows:

1. Guaranteeing the conditions for the functioning of civil society and the market, through provision of personal security, protection of property rights and enforcing of contracts.
2. Remedying market failures, for example through provision of public goods, countering negative externalities, or regulating natural monopolies.
3. Upholding or promoting procedural and/or distributional equity.

More broadly, it embodies the goals or aspirations citizens have for the society as a whole, founded in social or normative commitments or purposes (Moore 1995, ch. 2).

In addition, it can be argued that there is public value in facilitating the conditions for political deliberation. To the extent that constitutional arrangements, deliberative mechanisms, educational processes and cultural norms enable the unearthing of useful options for solving social problems and channels for discovering optimal solutions to those problems, they allow us to ascertain what is more valuable. Later in this book, I argue that client co-production has the potential to enhance this particular form of public value.

At the same time, value is a net concept. It is a function both of the benefits created and of the resources expended by public organisations in generating those benefits. As Moore puts it:

It is not enough to say that public managers create results that are valued; they must be able to show that the results obtained are worth the cost of private consumption and unrestrained liberty forgone to produce the desirable results. Only then can we be sure that some public value has been created. (1995, 29)

Moore indicates, moreover, that there are different kinds of resources. One is that which normally comes to mind when we think about 'resources': money. This comes from the taxes levied on the public, which they are obliged to pay. The money spent by government on collective goods is of course at the expense of the private consumption to which individuals may have otherwise devoted it. The other resource is legal authority or public power, derived from the fact that the state has a legitimate monopoly on the use of force to compel people to act in compliance with socially agreed purposes. Just as we are concerned about how much of our income is taken in taxes by the state to send on collective purposes, we are also vigilant about how much of our personal freedom to act is taken away by the state in the name of such purposes (Moore 1995, 41–2). This is why we establish institutions to limit the power of the state, such as due process, habeas corpus, trial by jury and freedom of information. In either case, it is seen as a good thing if the results sought by government organisations can be achieved with a minimum of public spending or of legal or regulatory obligation. Organisations that achieve the delivery of value at minimal financial cost or with only sparing use of legal authority are seen as efficient.

Thus, public value is the reference point of the analysis in this book. Another reason why this book is not narrowly managerialist is that its analysis makes it clear that public sector clients are not mindless dupes of organisational stratagems. If they are willing to co-produce, they do so for complex reasons, which go beyond fear or material self-interest. All the organisation can do is to try and influence clients to co-produce, taking account of their varied motivations. In this respect, the book implies a critique of economic and related approaches which perceive clients simply as amoral and atomised maximisers of their own expected utility.

Outline of the book

To anticipate and clarify the analysis, which spans several disciplines and is inductive in nature, herewith is a 'road-map' of the book. Its first two chapters look at the key terms which lie at its heart: 'co-production' and 'client'. Chapter 1 considers the meaning of co-production, and what we know so far about when government agencies use it and how they elicit it. Chapter 2 then explores the notion of clients in the public sector context. It distinguishes them from two other types of co-producers – 'citizens' on the one hand and 'volunteers' on the other and then explains how they are different from private sector customers. Based on this analysis, it offers a typology of public sector clients – paying customers, beneficiaries and obligatees – and sketches what is known about clients co-producing, in both public and private sector experience. Chapter 3 considers issues in legal compliance and regulation thrown up by the first two chapters.

Chapter 4 sets out the theoretical constructs drawn from the preceding survey, and explains the methodology. Chapters 5, 6 and 7 analyse three cases. Each case looks at a particular type of client across three countries: America, Britain and Australia. Chapter 5 considers the role of postal service customers in putting postcodes on letters – an apparently humble task but one which is crucial to the operations of these services. Their clients approximate the 'paying customers' in the typology. Chapter 6 examines programs for long-term unemployed people, whose role, under systems of 'mutual obligation' is to become more employable and to secure jobs in return for benefits. They can be seen as 'beneficiaries'. Chapter 7 explores an example of 'obligatees' – taxpayers – whose task is to accurately and honestly complete tax returns and lodge them with the tax authority. Each of these cases involves a large organisation or program with a big budget and many staff.

Chapter 8 draws the insights from the cases together to offer a (qualified) social exchange perspective on client co-production. In each case, there is an *exchange* relationship between the organisation and its co-producing clients. On the one hand, the clients donate their time and effort, which are valuable to the organisation because they enable it to realise its purposes better. On the other hand, the organisation provides or offers tangible or intangible values – material, intrinsic, solidary or expressive – to clients to induce them to co-produce.

Up to this point, the book will, for obvious reasons, have focused on phenomena external to organisations. Chapter 9 gives an account of what client co-production means for the internal management of public sector agencies. Finally, Chapter 10 explores some implications of the social exchange model of client co-production for public management theory and practice, and in particular for collaboration, client service and regulatory roles.

1

The Co-production Concept

Introduction

It is not only clients who can engage in co-production with a public sector organisation. So too can volunteers, private firms, other agencies at different levels of government, community organisations, and friends, relatives or neighbours of clients. In fact, just about anyone can potentially be involved. The notion of co-production therefore covers a wider field than the contribution of clients. This chapter explores this wider field. It starts with a sketch of its origins and evolution and draws on it to offer a working definition of co-production. It then considers what is known so far about the two basic questions addressed by this book: (1) when is co-production appropriate? (2) what induces co-producers to produce?

The evolution of co-production

The previous chapter indicated that the concept of co-production surfaced in the 1970s, generated considerable interest in the early 1980s, subsided into sporadic consideration until the mid-1990s, and has grown in importance since then. The initial interest had four antecedents, mostly in the United States (useful overviews are Brudney and England 1983; Percy 1984).

The first, which preceded the others, was the growing importance of the service sector, and increasing awareness of certain of its features which pointed to co-production. Especially important was that services are usually produced and consumed at the same time, and by corollary entail a degree of interaction between the producer and the consumer, not only in specifying of services but also in contributing to

their realisation. The first use of the term 'co-production' in the sense used here was in Gersuny and Rosengren's seminal work in 1973, *The Service Society*. They sought to 'clarify our understanding of our burgeoning service society, the unique elements of a division of labor in which consumers are also co-producers, and the new mechanisms of social solidarity which such a transformation makes possible' (1973, 2). A year later Gartner and Riessman's *The Service Society and the Consumer Vanguard* (1974) included an analysis of the 'consumer as a direct factor in service production', in areas such as health, education, policing, family planning, and drug education. This interest was especially strong in human service fields, such as the law (Rosenthal 1974; Brickman and Lempert 1976), education (Gartner et al. 1971), social work (Katz 1970), medicine (Howard and Strauss 1975) and similar professions in general (Haug and Sussmann 1969; Daniels 1971). These largely private sector developments established a foundation of thinking about clients as co-producers, upon which three public sector currents were built.

One was the rise, mentioned in the introduction, of antipathy to big government, with a concomitant search for alternatives to production by public sector employees. An important framework which gained impetus from this movement was known as 'public choice' or 'the economic study of non-market decision-making' (Mueller 1979, 1). Its main concern was to support privatisation and marketisation of public sector activities (Niskanen 1971; Savas 1983). However, two of its leading proponents in the field of public administration, Vincent and Elinor Ostrom, were the first to pay attention to 'co-production' in a public sector context. They sought to make sense of the problem that arises 'when users of services also function as essential co-producers'. They observed that 'Collaboration between those who supply a service and those who use a service is essential if most public services are to yield the desired results' (V. and E. Ostrom 1977, 33–4; see also V. Ostrom 1977). Using the example of policing, they and their colleagues elaborated a 'public service production process', in which citizen activities affect both outputs (such as arrest rates) and outcomes (such as the crime rate) (Ostrom et al. 1978; see also Percy 1978).

The second public sector current was the burgeoning interest in citizen participation in government. Until the start of the 1980s, this had mainly been about citizen involvement in decision-making. Experiments and initiatives at various levels of government established arrangements for better consultation prior to decisions, through such devices as public hearings and community forums, supported by systematic avenues for registering complaints or accessing public information (Arnstein

1969; Pateman 1970; Thomas 1995). It was only a matter of time before it began to be pointed out that most of the extensive discussion of citizen participation in government 'overlooks the possibility that citizens might influence the *execution* of public policy as well as its formulation' (Whitaker 1980, 241). Sharp echoed this criticism:

There has been, of course, considerable controversy over the meaning of citizen participation, but this controversy has focused primarily upon the extent of citizen control over policymaking, rather than upon the inadequacies of a conception of citizen participation that fails to recognise citizens' responsibilities for and unique contributions to service delivery itself. (1980, 109; see also Bjur and Siegel 1977; Wildavsky 1979, 253)

The citizen participation perspective shared with the public choice approach the insight that public services (like all services) entail the transformation of the consumer, who is therefore a vital co-producer of any personal change which occurs. But it went beyond that. Whitaker, for example, identified three broad types of co-production (1980, 242):

1. citizens requesting assistance from public agencies (such as calling the police or fire brigade);
2. citizens providing assistance to public agents (such as volunteer firefighters), which can include not only discrete additional actions but also enhanced co-operation with public agencies in existing citizen actions; and
3. citizens and agents interacting to adjust each other's service expectations and actions, such as those that occur between teachers and students.

Sharp (1980) added to this the insight that citizens also co-produce by setting the social and/or physical conditions in which services are delivered (e.g., by placing litter in proper containers) (p. 110) (see also Bjur and Siegel 1977; Rich 1978, 1981; Nanetti 1980; Rosentraub and Sharp 1981; Wilson 1982).

This perspective also drew a linkage between co-production and the encouragement of citizenship. Bjur and Siegel (1977) called for voluntary participation founded in a model of participatory democracy derived from Rousseau (p. 136), while Glazer (1983) argued that a greater degree of voluntarism and self-help offer the possibility of more continuous

day-to-day involvement of individuals and neighbourhoods in government (see also Levine 1984, 181).

The third public sector current was an ongoing interest in the use of volunteers in public agencies or for public purposes. This was especially noticeable in human services disciplines such as social work (Gotbaum and Barr 1976; Ellis and Noyes 1978; Smith and Lipsky 1993; see also Gidron 1980), and in emergency services, especially police and fire services. It both drew on and informed the other two perspectives, in particular in conceiving of volunteers as co-producers (Brudney 1990a, 1993, 1995).

Defining co-production

Not surprisingly, given that it involves multiple parties and a wide array of activities, there is considerable disagreement over the definition of co-production. There are contending viewpoints both about what constitute the results or 'products' of co-production, and about its processes.

The products of co-production

'Production' entails converting or transforming resources into things of value. Logically, therefore, co-production must be conceived as a value-creating activity. It can only be seen as complementing or contributing to *organisational* production if it leads to the enhancement of value. But to recognise that only value-creating activity can be encompassed by the notion of co-production is to beg further questions, about what kinds of value are involved.

First, if co-production is to be worth managerial attention, it must entail the creation of *public* value. In most cases, this will also involve the generation of private value as well, either because it is very rare that a program leads only to public value (Ferris 1984, 326), or because the delivery of private value to citizens is part of encouraging them to contribute to public value. But if the expenditure of public resources to co-production is to be justified, there needs to be a benefit to the public of one kind or another. At the same time, the very fact that co-producers are involved suggests that some private value is typically also being delivered in the process, in that this is what prompts them to take part.

Second, co-production contributes to both 'outputs' and 'outcomes'. The former refers to the products produced or the services provided by the government program or activity in question, whereas the latter

refers to the impact of the program on clients or on the achievement of the overall objective. In the traditional program logic of internal organisational production, outcomes are said to be the consequence of outputs. This view had particular application under the New Public Management, with its focus on output budgeting and close specification of services. Outputs were seen as easier to specify and measure than outcomes, which were usually vaguer, less controllable by the organisation, and harder to link causally to outputs.

However, the consequence of this discounting of outcomes is that it limits the scope for managerial action to create value, particularly through co-production. The rationale for producing a given output is to contribute to a particular desired outcome. However, it may be that there are co-producer contributions which can also lead to that same outcome, and moreover that one or more of them does so more effectively than the output being produced (Ostrom et al. 1978, 382–3; Whitaker 1980, 240). Take the example of a rural fire brigade. If its role is understood as producing emergency responses, in which paid and volunteer firefighters attend and extinguish bush fires, then it can be seen as utilising volunteer firefighters to co-produce outputs. But if its role is conceived as co-producing an outcome, namely, the minimisation of the damage to persons and property from fire, then it may be able to call on additional productive capabilities, such as fire safety and prevention work by property owners. This in turn might call for additional tasks to be carried out by firefighters, such as educational, advisory, and promotional activities to encourage fire safety (Alford 1993, 140–1). Typically, conceiving of value in outcome terms conjures up additional participants in its production, beyond those (usually internal staff) who produce outputs.

The process of co-production

Even more open to debate is the question of which kinds of activities should be counted as part of the *process* of co-production. It involves five issues.

The first issue is whether co-production refers only to *joint* activity. Public services can be produced by either (1) the organisation alone; or (2) a combination of the organisation and an external party; or (3) an external party alone (Warren et al. 1982; see also Bovaird 2007). Clearly the first of these does not entail co-production, since there is no contribution of effort by external parties. Just as clearly the second, which entails '*direct* co-operative involvement by citizens and employees of service agencies in the production of services' (Percy 1984, 434) can

be seen as co-production. It can entail either ongoing interaction in which both parties perform most of the tasks together, such as occurs in school education, or processes in which citizens act separately for most of the time, and only deal with public servants at particular points where the fruits of their efforts are combined, such as when submitting a tax return. In either case, the co-producer and the public servants have transactions with each other and are generally aware of these transactions (Parks et al. 1981).

Less clear is the situation where citizens produce by themselves. Sometimes this can lead to the creation of public value, for example, where a person places his/her litter in a bin, thereby enhancing local environmental amenity. Sometimes, as in 'self-help' situations (Osborne and Gaebler 1992), it can involve a mixture of public and private value, for example, where a motorist drives more safely, thereby contributing both to his/her own survival and that of other road-users. Either way, it seems at first sight that the term co-production is unsuitable for this type, since there is no joint activity. The issue is more complex, however, if the potential litterer is prompted to use a bin by a nearby sign placed by the local council, or by the fact that the council has carefully placed bins at accessible locations. It is also less clear if a motorist has been exhorted to drive more carefully by government through road safety advertisements, or by the road agency's installation of speed humps or roundabouts.

The key point is not whether there is interaction but whether the citizen's contribution is induced by the actions or behaviour of the government agency. Our concern is with managerial choices, that is, with the impact on citizens' behaviour of the agency acting in one particular way rather than another. A narrower conception is appropriate if, as the public choice writers envisage, what is being produced is an output. If, however, what is being produced is an outcome, then there is room for a broader understanding of what constitutes co-production, as has been discussed previously. The achievement of an outcome can result from joint or independent production. For the public manager focused on outcomes, to rule out consideration of independent production, and of managerial actions which could promote it, is to limit the range of tools available.

A second issue is whether co-production includes passive behaviours – that is, refraining from doing things – as well as active ones (Rich 1981; Brudney and England 1983). For example, it could be argued that parents refraining from giving their children junk food co-produce better health outcomes for the community. Indeed, many agencies who engage in regulation or otherwise impose obligations on citizens direct

a significant proportion of their effort towards getting citizens not to engage in actions detrimental to communities, such as pollution or perpetrating corporate fraud. But the notion of co-production should be confined to active behaviours. It is difficult to conceive of doing nothing as a form of *production*. If co-production is to be seen as analogous to production, indeed, if it is to mean anything at all, it must refer to positive actions.

A further issue is whether co-production includes not only intentional but also unintentional actions. A commonsense approach might be to confine co-production to 'those actions which are *intended* to augment or contribute to the actions of public agencies' (Warren et al. 1982, 43, my emphasis). However, this is an unduly limiting condition. For one thing, it is difficult to distinguish intended from unintended actions. Is a citizen who casually (and perhaps habitually) tosses a piece of litter into a bin acting intentionally or unintentionally? Regardless of the answer, he or she is contributing to municipal council efforts to keep the streets clean. Moreover, even unthinking co-production can be prompted by agency actions which structure citizens' choices so that it is simpler for them to behave in the desired fashion. For example, speed humps and intersection roundabouts induce safer driving, even though the drivers scarcely think about their actions in such situations. Generally, therefore, co-production will be taken here to include habitual or unthinking actions which are stimulated in some way by the agency as well as intentional actions.

Another important dimension is the extent to which the interaction between the organisation and the client is transactional or relational. Some client co-production, such as the addressing of envelopes by mailers, is transactional, involving episodic and relatively simple efforts by clients in service encounters. Other dealings, such as those between teachers and students or unemployed people and employment program staff, are more relational, involving mutual personal knowledge and engagement and ongoing interactions. At first sight, this might seem to be a function of whether the interaction is 'one-off' or ongoing, with the former seen as transactional and the latter as relational. But most public sector dealings are ongoing, even if they seem transactional in nature – for example, addressing mail or filing tax returns. And some apparently relational dealings, such as those between an unemployed person and employment program staff – may, hopefully, only occur once or twice in a person's life. As will be explained later in this book, this dimension turns out to be related to some factors motivating clients to co-produce.

The final issue, which also bears on why co-producers contribute, is whether only voluntary action by citizens should be seen as co-production, or whether the concept should also apply where citizens contribute because they are compelled to do so. The dominant but not exclusive consensus in the early surge of interest in co-production, especially pervasive in the volunteer perspective, was that it referred only to voluntary action (Brudney and England 1983; but see Sharp 1980, 112). As Whitaker (1980) put it:

Co-operation needs to be distinguished from compliance and habit. If citizens act in accordance with public service goals because they fear reprisals for their refusal, or...because they have become habituated to that set of behaviours, their actions do not constitute co-operation. Co-operation is voluntary. Exercise of conscious, citizen influence on public service through 'assistance' depends upon the citizen's capacity to withhold or to give co-operation. (p. 243)

This consensus is valid in its affirmation that co-production comprises voluntary action. As suggested earlier, voluntarism is its animating spirit and distinguishing characteristic. And voluntarism is even more central when the co-producing actors in question are clients. But the consensus is flawed in ruling compliance out of the domain of co-production. The reason is that it confuses compliance with compulsion. Strictly speaking, compliance is where people *act in accordance with* agency requirements.¹ They can do so either voluntarily or because of compulsion.

Indeed, it can be argued that most compliance activities include an element of voluntarism or consent. For example, it is well known that the running of arguably the most coercive institutions in our society – prisons – is not possible, or at least is highly costly, without some degree of consent from those within them, namely, the prisoners. Unless they co-operate with the rules of the prison to some degree, it is very expensive to maintain an ongoing regime of order within it. The costs of bringing about compliance are highly dependent on the co-operation of the compliers. As will be discussed in some detail later in this book, most regulatory or enforcement agencies seek to secure some voluntary compliance from those on whom they impose legal obligations.

Moreover, in practice it is often very difficult to draw the line between coerced and voluntary compliance, as Whitaker acknowledges (1980, 244). An addict who is a client in a drug rehabilitation program, for example, may contribute to the program purpose of getting him off heroin partly because it is a condition of a court order and partly because

of a desire at some level to do so. Social workers in the program will try to appeal to his voluntary impulses as much as his fear of incarceration in working with him. Most importantly in such a case, it would be very difficult to delineate just where voluntary action ends and coerced compliance starts.

It will therefore be assumed here that co-production is essentially voluntary, but that it can form part of compliance, even where some compulsion is present. In such situations, part of the compliance is due to coercion, but part can be due to the co-producer's consent.

In summary, a relatively broad concept of co-production is warranted. For the purposes of this book, we define it as follows:

Co-production is any active behaviour by anyone outside the government agency which:

- *is conjoint with agency production, or is independent of it but prompted by some action of the agency;*
- *is at least partly voluntary; and*
- *either intentionally or unintentionally creates private and/or public value, in the form of either outputs or outcomes.*

This definition applies to all kinds of co-producers, whether they are volunteers, clients, other government agencies, community organisations or private firms. In subsequent chapters, this definition will be refined to apply it specifically to clients as co-producers.

The discounting of clients in co-production

Reflection on the more general phenomenon of co-production has been marked by definitional fuzziness about who does the co-producing. In the process, it has discounted the role of the *client* in co-production. There has been a habitual blurring of the distinction between 'citizens' and 'clients' (or customers or consumers) which has submerged the fundamental differences between the two roles. As a citizen, a person's relationship both to fellow citizens and to government is quite different from a consumer's relationship to fellow consumers and to producers (Stewart and Ransom 1988; Moore 1994). A citizen is part of a collective 'we', who express their aspirations through the manifold 'voice' mechanisms (Hirschman 1970), such as voting and other forms of political participation, which make-up democratic political processes. A client, on the other hand, encounters the organisation at its 'business end' (Moore 1995), where services are delivered.

There have also been frequent slides from the notion of 'consumer' to that of 'volunteer', which are in fact distinct concepts. Whereas consumers are the buyers of the products of a firm, volunteers are analogous to its suppliers. To the extent that they are not recipients or beneficiaries of the service being provided, volunteers are logically different from consumers. They provide inputs to the organisation, albeit on a voluntary rather than a purchased basis, without necessarily individually consuming them. Yet there has been a tendency to devalue the role of the consumer in co-production and instead slide to a conception of the co-producer as a volunteer.

Nevertheless, the experience of co-production more generally offers insights into our two questions: in what circumstances it might be applied to clients; and how they might be induced to participate in it.

When co-production is appropriate

What does experience so far tell us about when it is appropriate for a government agency to utilise or enhance co-production? Not surprisingly for a phenomenon that for a while bordered on being a fad, this question has not loomed large among its proponents. They have tended to assume it is a Good Thing, without much regard to the circumstances. To the extent that a distilled wisdom has emerged, it concerns the costs and benefits of co-production, with a particular focus on volunteers.

One popular suspicion of co-production is that it is a means by which governments offload the delivery of services to the community, to reduce government spending. However, the scope for government savings is by no means clear-cut. In determining whether to utilise external co-production, the overarching issue is whether it is interdependent with or a substitute for organisational production. An example of an interdependent relationship is where education depends on the joint activities of both teachers and students. An example of a substitutive relationship is where garbage collectors and citizens may be substituted for each other in carrying refuse to the kerbside or other collection locations.

As Parks et al. (1981) point out, the most efficient mix of internal and external production depends on their relative costs. In an interdependent relationship, which is more likely in many public services, inputs from both types of producers are required for the service to be produced, but the proportion of each is also dependent on the relative wages and opportunity costs. In a purely substitutive relationship,

the most efficient choice of inputs is either all-internal or all-external producer, and therefore co-production is unwarranted² (1981, 1002–8). In this perspective, co-production is necessary in an interdependent relationship, but unnecessary in a substitutive one, because the price mechanism will dictate that only internal *or* external production, but not both, is efficient.

The problem with the public choice approach is that it focuses only on the relative *costs* of the work done by the two types of producers. It does not focus on their relative *benefits*, and in particular on the quality of their respective contributions, that is, on the knowledge, skill, or expertise which they bring to the task. It may be, for example, that an internal producer in a particular case has an hourly wage which is greater than the opportunity cost per hour of an external producer, but nevertheless delivers benefits which outweigh the extra cost. As Hood (1986, 90–3) points out, an expert specialist provider is more likely to perform the task efficiently than amateur users. The more specialised the task, the more wasteful it is to have it performed by users, especially if the latter are highly paid specialists in different fields. Thus, another circumstance where it might be beneficial for an organisation to utilise co-production is where users are more competent at performing the task than organisational staff.

A better-crystallised corpus of experience in tapping the benefits of co-production comes from those organisations which have made substantial use of *volunteers*, such as fire brigades, hospitals, mental health institutions, conservation, and community crime prevention. In general, they have found that enlisting volunteers tends to improve service responsiveness or effectiveness (Brudney 1984, 1986; Duncombe 1985; Thomas 1987) and have more general advantages such as the enlargement of government capabilities, the improvement of government–community relations and the enhancement of democratic values (Brudney 1993, 1995), but that the effect on costs varies, sometimes reducing them (Norris et al. 1993) but more often increasing them (Hilke 1986; Brudney and Duncombe 1992); Percy (1984), Duncombe (1985), Mattson (1986), Rosentraub and Warren (1987), and Montjoy and Brudney (1991) point to similar positives and negatives.

In summary, co-production appears appropriate when its potential benefits outweigh its costs. This may be a function not only of the relative costs of internal and external labour but also of their relative expertise. Moreover, some less tangible factors, such as improved government–community relations, need to be taken into account in considering benefits.

Why co-producers produce

What motivates people to take part in co-productive activities? The commonsense answer is: when it is in their interests to do so. But this answer is open to challenge on several fronts. It is prosecuted most typically by advocates of the public choice perspective, who tend to assume rather than explain the motivations of co-producers. They start from the assumption that people make choices based on calculations of the benefits and costs (conceived usually in economic terms) to them as individuals, seeking to maximise the former and minimise the latter (Parks et al. 1981; Kiser 1984; Percy 1984). In this context, the most effective tools for inducing external parties to co-operate would be to offer them incentives to do so or alternatively to threaten them with sanctions for not doing so.

However, this approach neglects other motivations beyond self-interest, which resonate with the citizen participation and volunteer perspectives. The result is not only that it fails to tap these other motivations, but also that it may actually undermine them and therefore reduce the possibilities for eliciting co-production. This neglect stems in part from the self-interest model's underlying assumptions.

One of these assumptions is that contributing time and effort is a *disbenefit* for people, in return for which they need to be given what human resource practitioners refer to as *extrinsic* rewards (Lawler 1973; Mitchell 1982). The idea is that people endure the unpleasant drudgery of their time at work, in return for which they receive the extrinsic reward of pay, with which they can afford the pleasant things in life, such as leisure or family, outside the domain of work. But, in fact, work can be something which people actually enjoy, if they find it varied, stimulating, worthwhile or self-fulfilling. Work motivation specialists call these *intrinsic* rewards (Deci 1975; Lane 1991; Kohn 1993); the work itself is the benefit, not just the pay. To the extent co-production is also work, intrinsic rewards may also appeal to the external co-producers who perform it.

A second assumption, which especially affects those types of co-production undertaken by groups, is that it is not in people's self-interest to take part in collective action. This has been most famously expressed in Mancur Olson's 'logic of collective action' (1965), which he applied to interest groups seeking to achieve public policy goals or to work for collective benefits such as a cleaner or less crime-ridden neighbourhood. On the one hand, he argues, participation entails costs, such as membership fees, time in meetings, and effort in working to achieve

the group's purposes. On the other hand, by 'free-riding' on colleagues' contributions, people can avoid the costly effort but still reap the collective benefit. He concludes from this that groups must either coerce individuals or offer them selective benefits – that is, private rather than collective value – to induce them to contribute to collective efforts.

However, Olson's analysis overlooks another important human motivation, which I will call *sociality* – the enjoyment we derive from associating with others, from receiving their approval and concomitantly from not being subject to their disapproval. In this case, participation is not a cost but a benefit in itself. People may contribute even if it disadvantages them financially, because they enjoy the company, fellowship and esteem of others – or what Wilson (1973) referred to as 'solidary incentives'.

A third assumption is that people are motivated only by *self-interest*. Of course, nobody really believes that – not even economists! If people were concerned only about themselves, charities would not receive donations, citizens would not stand to attention for national anthems and flag-raising, anti-war (or for that matter pro-war) demonstrations would never be held, locals wouldn't help strangers with directions, petitions calling for environmental protection would never be signed, and parents wouldn't endure the sleep deprivation and nappy changing that go with caring for a new-born baby. All of these behaviours are prompted by concerns for other people or purposes beyond themselves.

Economists acknowledge these concerns in a way which devalues them: they characterise them as 'altruism', which they employ binary-fashion to encompass everything except self-interest. One is either self-interested or altruistic. But this term does not quite encompass the full meaning of these other motivations. It can be reasonably applied to behaviours like charitable giving or helping strangers. But it sits awkwardly with expressions of patriotism on the one hand or love for a child on the other. Nor does it express well a person's opposition to a government policy. The fact is that there are different kinds of concerns beyond self-interest. (Note also that 'altruism' in no way represents the other two types of motivation described above: intrinsic rewards or sociality.) For the purposes of this book, we are concerned in particular with *normative purposes*, which resonate with people's moral values. Such purposes may be consistent with material self-interest, or they may be at odds with it. For example, a rich person may support progressive taxation on fairness grounds, even though it means they have to pay more tax. A childless couple may approve of government

spending on education, because of a belief in its positive impact on society and culture, even though it means they have to pay higher taxes than otherwise.

Some observers of co-production acknowledge these other motivations in a way which strips them of any substantive meaning. For example, Ferris (1984) states:

Aside from the private benefits, citizens often have altruistic motives in volunteering time or donating money ... However, one can perceive the altruistic motives simply as a case where an individual donor is better off because he/she receives utility from the happiness of others. (p. 329)

However, such a definition of utility maximisation renders the concept all but meaningless (Orren 1988, 16). As Lester Thurow puts it, it 'is just a fancy way of saying that individuals do whatever individuals do.... By definition, there is no such thing as an individual who does not maximise his utility' (1983, 217). Moreover, even where economists recognise these broader motivations, they play only a passive part in the working mechanisms of their analyses. They are seen as exogenous factors which affect the position and shape of the supply and demand curves – that is, as immutable 'givens' or independent variables. This leaves out the possibility that public sector organisations might be able to influence those motivations in one way or another, and thereby seek to enlist co-production.

These three types of motivation – intrinsic, social, and normative – along with material rewards, have been most extensively considered in the volunteer perspective. One set of surveys identified 'six categories of motivations or psychological functions that may be served by volunteering' (Clary et al. 1996, 1998). The most important of these maps directly onto normative purposes, namely, 'values', in which people volunteer to express humanitarian values or altruistic concerns. Next in importance equally were motivations corresponding with intrinsic and solitary rewards. Those relating to intrinsic motivations were 'enhancement' of volunteer's psychological development and self-esteem, and 'understanding', where volunteering was an opportunity to increase knowledge and skills. Relevant to sociality was a 'social' motivation, in which volunteering helps people to fit in and get along with social groups important to them. Least important were motivations closer to self-interest: career enhancement, and coping with inner anxieties borne of feelings of guilt or inferiority. It was also found that different

motivations tended to be related to different kinds of volunteer work, for instance, social with religious or political volunteering, and values with environment, human services or health (Clary et al. 1996).

There has been less consideration from the citizen participation perspective. However, Sharp's study of how neighbourhood organisations mobilise residents to participate in both co-producing crime prevention and advocating changes to police service policy distinguished three motivations: material, solidary, and purposive incentives. She found that the relative effectiveness of the three types of incentives depended on the type of crime prevention activity being promoted. For example, solidary incentives were most effective for mobilising resident co-production of 'block watching' (similar to 'Neighborhood Watch' in Australia), but material incentives were most effective in mobilising residents to label their individual property (Sharp 1978, 188–190, 217–21).

Conclusion

The specific role of *clients* in co-production, as opposed to that of citizens or volunteers, has been partially submerged in its consideration and practice so far. Nevertheless, the more general experience of co-production offers insights into whether and how it might apply specifically to clients.

On the question of when it is appropriate for public sector agencies to utilise co-production, the general answer is: when its benefits outweigh its costs, relative to in-house production. Costs are a function of the relative opportunity costs of external co-producers and internal producers. The benefits constitute a calculus of public and private value. Affecting both of them is the relative capacity of internal and external producers to do the job well. On the question of what motivates co-production, a wider array of factors than the individual self-interest of utility theory is relevant. These include intrinsic, solidary, and normative motivations.

The next chapter turns to consideration of the other key term in the phenomenon under examination: clients.

2

Clients in the Public Sector

Introduction

So far, we have been considering clients as co-producers without addressing a threshold question: what do we mean by 'clients'? Put more broadly, how do we characterise the 'members of the public' with whom government organisations deal in the various encounters and transactions at their 'business end' (Moore 1995, 37)? This issue has come to the forefront of public management in the past decade or so, as client focus and service quality have attracted more attention.

In the United States, United Kingdom, Australia, and other countries in recent years, the orthodox answer to this question is that they should be seen as *customers*. In this official vision, the solution to red tape, officious bureaucrats, long queues, and drab uniformity of services is for public sector organisations to become more customer-focused – to understand more clearly who their customers are, listen to their needs and be more responsive to them, just as private sector firms do (Wagenheim and Reurink 1991; Walsh 1991, 10; O'Faircheallaigh et al. 1991; Wanna et al. 1992, 126–7; Osborne and Gaebler 1992, ch. 6; Barzelay 1992; Barzelay and Moukhebir 1996). An increasing but as yet limited number of government agencies have appointed marketing managers and adopted what they perceive as the techniques of marketing, such as promotional campaigns, customer surveys, more helpful enquiry services, speedier telephone-answering, or more welcoming client reception areas (OECD 1987; Flynn 1990, 137–48; Scrivens 1991; Self 1993, 129–41).

These developments received a further impetus with the adoption of contractual modes of governance in the 1990s. The 'purchaser/provider split', propounded in the 'Next Steps' report in the United Kingdom

(Jenkins et al. 1988), and popularised as ‘separating steering from rowing’ in *Reinventing Government* (Osborne and Gaebler 1992) in the United States, was in part conceived as enabling service-delivery agencies to focus on the needs of their customers (Jordan and O’Toole 1995). Moreover, it made it easier to subject service-delivery agencies to competition, even if only in ‘internal markets’, thereby forcing them to pay attention to the customers for whose favours they competed (Walsh 1995, 159–62). Even agencies which did not have to compete for clients were required to set and meet customer service standards, most notably under the Citizen’s Charter in the United Kingdom (Major 1991), and the adoption of service commitments in some US government organisations at federal, state and local levels (Osborne and Gaebler 1992; see also Victorian Office of Public Sector Management 1995).

However, despite the attractive prospect of more customer-responsive government agencies, these developments have been the subject of some controversy. Quite apart from whether a customer focus has actually been fully implemented in practice, critics have questioned the validity of applying the notion of the ‘customer’ in the specific circumstances of the public sector, seeing it as an inappropriate importation of a private sector model into government (Stewart and Ranson 1988; Pollitt 1990; Swiss 1992; Frederickson 1992 and 1997; Lynch and Markusen 1994; Moe 1994; Pagnato 1997; Patterson 1998). More importantly, government reformers have not articulated what exactly they mean by ‘customer’, and public administration commentators have devoted only modest attention to clarifying the notion in the public sector context. As Kettl has observed

... the ‘customer service’ movement has swept the Western world, but there simply has been little careful thought about who government’s customers are, how government activities can be restructured to advance customer service, how to balance the often conflicting expectations of government’s multiple customers, and what other important goals might be sacrificed in the process. (1996, 261)

This chapter seeks to clarify what we mean by ‘clients’. It considers the deficiencies of the private sector model of the customer in a public sector context, suggesting that government organisations encounter several, different kinds of members of the public, of which it offers a tentative typology. It then looks at broader notions of exchange as offering potentially fruitful but as yet inadequately applied concepts for

resolving the debate and suggests how they might be adapted to the specific realities of the public sector.

However, the focus on public sector clients so far has effectively ignored their role as co-producers. Consequently, it exhibits the same gap observed in the more general co-production experience: a neglect of clients as co-producers. At the same time, some private services marketing does address client co-production, although most of it conceives of clients in archetypal private sector terms, that is, as paying customers. Finally, therefore, the chapter overviews the insights offered by this research into our two basic questions: when encouraging client co-production is appropriate, and what motivates it.

The inapplicability of the private sector customer model

The archetypal transaction in the private sector is the market exchange between a customer and a private firm. In this exchange, which is both direct and voluntary, the customer provides money in return for goods or services. Each therefore gains private value, which they can appropriate and consume themselves, in a ‘value-creating process’ (Kotler 1980, 14).

Some of the transactions between government organisations and members of the public conform to this ideal-type. For example, public transport passengers or postal service users pay money and each receive a service in return. To the extent that they are engaged in economic exchanges, these members of the public can be seen as paying customers, just like those of private sector firms. But closer examination reveals that there is more to their transactions than the private sector model encompasses. It is noteworthy that mass transit systems are typically subsidised by the public purse. The reason is, as we shall see, that ‘paying customer’ is not the only relationship which members of the public have with the transit authority.

More importantly, many other transactions between government organisations and members of the public depart from the business model in various ways, which abrogate its basic incentive structure. These varying departures correspond to different roles performed by members of the public, which can be assembled into a typology of organisation–public relationships.

First, members of the public receive not only private value from government organisations but also *public* value, which is ‘consumed’ jointly (Stewart and Ranson 1988, 17; Walsh 1991, 14–15; Moore 1995, 28) – as is the case, for instance, with public goods, the mitigation of externalities,

or equity (Stokey and Zeckhauser 1974; Hughes 2003). In this context, 'the public' is not an aggregation of individuals but a collectivity, in which they take part as *citizens* (Stewart and Ranson 1988, 15; Lynch and Markusen 1994; Carroll 1995; Frederickson 1997; Pagnato 1997). To cast them as customers is to neglect and devalue this role of citizen (Pollitt 1990; Mintzberg 1996, 77). Citizens' relationship with government cannot be reduced to one of consuming private value, and their needs and wants are not simply expressed as consumer preferences in market transactions. Because there are contending interests among groups of people, and because public value affects all of them, discovering what the public wants as a collectivity is not simply a matter of aggregating individual wants, which might be registered, for instance, through consumer surveys. It is rather a collective will, which is necessarily the outcome of processes of political representation and deliberation, in which efforts are made to reconcile conflicts and identify synergies among them. People engage in these processes as citizens, not simply as customers (Lynch and Markusen 1994; Patterson 1998). As Pollitt puts it

... the public service consumer is also (nearly always) a citizen ... It is a concept with a strong connotation of *collective* rather than individual action ('Fellow citizens!'). Citizens owe duties to and possess rights of the state. All this is alien to an individualist model where the market is the chief focus of transactions and values. ... (1990, 129)

Of course, the notion of 'citizen' is not without its difficulties. Its meaning has long been the subject of contention, most particularly about citizens' rights and responsibilities – what they include, and their relative weight – and the related issue of who is included in the definition of a citizen. Citizens' rights were famously enshrined in 1789 in the French Declaration of the Rights of Man (Faulks 2000, 31), or the US Bill of Rights (Heater 1999, 6). T. H. Marshall (1949) notably sought to widen the scope of rights when he distinguished between civil rights (such as liberty of the person or freedom of speech), political rights (such as the franchise), and social rights (such as economic welfare and security), and argued for greater emphasis on the last (Marshall and Bottomore 1992, 8). More recently, neo-conservatives and communitarians have called for the counter-balancing of social rights with what they see as social responsibilities (Etzioni 1993) – most notably in the push to introduce 'mutual obligation' regimes in welfare and other areas of social policy (Mead 1986). These issues also affect who is

counted as a citizen. Typically, the population covered by civil rights, to a greater or lesser degree, is broader than that which is entitled to vote. Similarly, the responsibilities being proposed for those who receive social entitlements, such as welfare recipients, may cover people not entitled to vote.

Thus, there is contention about who performs the function analogous to (if not the same as) 'expressing preferences' about what public value should be produced, and also about who 'consumes' that value. Strictly speaking, public value is 'consumed' by all the people who reside in the governmental jurisdiction, such as children and non-naturalised migrants, not just by those who are entitled to be citizens in the sense of having the right to vote. But to the extent that they contribute to public deliberation, for instance, by exercising civil rights such as freedom of speech or assembly, they affect the formulation of the collective will as citizens, not simply as members of 'the public'. Nor is the 'taxpayer' the essential 'consumer' of public value, even though he or she provides the money for its production. It is the citizen who ultimately determines, through the aforementioned political process, how much tax will be paid by whom, and what public value will be provided in return for it. These basic decisions are analogous to those made by customers in private sector market exchanges. Accordingly, the citizenry is the key shaper and 'consumer' of public value.

Thus, the organisation's relationship with the citizenry is mediated via the political process. By contrast, those with whom it deals at its 'business end' (Moore 1995), in typically more direct interactions, look more like the customers in the private sector market exchange, since it deals with them as individuals. But their relationships with the organisation are of varying types.

One category of public sector consumers does not pay money in return for the service, and consequently there is no exchange between the organisation and the customer. Scrivens (1991, 20) points out that many non-traded welfare services are 'delivered as unilateral transfers', in which there is no exchange relationship. For example, government school pupils receive an educational service and neither they nor their parents pay a purchase price for it. More tellingly, social security recipients receive money *from* the government rather than pay money *to* it. In these and many other public sector activities, some critics argue, the services are not purchased and there is no exchange (Lamb 1987, 59; Stewart and Ranson 1988, 150).

Related to this point is that in such cases of unilateral transfer, the organisation is not seeking to maximise sales. Instead, its concern is to

ration its services, which are limited by its budgetary resources, rather than to generate greater demand (Flynn 1990, 134; Walsh 1991, 14). This rationing is applied through devices such as eligibility rules and waiting lists, the former being tightened and the latter lengthening when demand increases relative to supply (Pollitt 1990, 127–8). Consumers in these cases are better described as *beneficiaries* than as customers. They give no money directly to the organisation for the service, and the organisation is seeking not so much to maximise sales as to ration the volume of service delivered within the constraints of its budget.³

Finally, the assumption that the transaction is voluntary falls down when the ‘service’ entails coercing the ‘customer’ to ‘receive’ it (Pollitt 1990, 126–7; Pagnato 1997; Patterson 1998).⁴ Consider the ‘customers’ of a prison service: the prisoners. Usually they have a strong aversion to the service being delivered – indeed, some of them actively seek to avoid receiving it (Lamb 1987, 59; Flynn 1990, 134; Moore 1994, 301). In fact, this element of imposing obligations appears in the work of many public organisations, not just those engaged in law enforcement. Moore (1994, 301) employs the useful term ‘*obligatees*’ to characterise these members of the public whom the organisation is subjecting to legal obligations. The more obvious examples include prisoners and people being arrested by the police. But this category also includes those people who are subject to the requirements of regulatory agencies, and indeed all who deal with government organisations that wield public power as part of their work (Sparrow 1994; Moore 1995, 37).

At the same time, the organisation imposing these obligations is not seeking to maximise sales in the same way as a private firm. The extent to which it seeks additional business is constrained by the compass of the law it is applying to obligatees. Whether it transacts business with a given member of the public is not determined by the additional profit it may make on that business, but by whether that person is liable under the law. Even in an organisation that compulsorily collects revenue, such as a taxation agency, the amount of revenue it seeks to collect will be limited by the obligations of taxpayers under the law.

These different roles can be classified in a typology of organisation–public relationships, as shown in Table 2.1. In this typology, there is a primary distinction between those who receive public value from the government organisation – citizens – and those who have their private value affected, whom I will call clients. The latter category comprises those with whom the agency deals at its ‘business end’ (Moore 1995), its ‘public-in-contact’ (Blau and Scott 1963, 59) with whom it has typically more direct interactions. Within that category, a secondary distinction

Table 2.1 Typology of roles of ‘members of the public’

Role	Direct economic exchange between organisation and ‘member of public’?	‘Member of public’ wants product or service?	Organisation seeks to maximise supply of service?
Citizen	No (mediated by collective funding)	Yes	No – constrained by budget and/or laws
Client			
Paying customer	Yes	Yes	Yes – maximises subject to profitability
Beneficiary	No (client does not pay)	Yes	No – constrained by budget and/or laws
Obligatee	No (private value diminished)	No	No – constrained by laws/rules

is drawn, between paying customers, beneficiaries, and obligatees, according to whether the member of the public wants the service and whether the organisation is seeking to maximise sales or is instead constrained by collective decisions about budgets or rules. Of course, in any given activity or transaction, a government organisation is simultaneously affecting both private and public value.

In this typology, only one of the roles of ‘members of the public’ seems to conform to the ideal-type of the private sector market exchange: the paying customer. All of the others diverge from it in one or more respects, and in the process pervert the incentive structure under which organisations are impelled to satisfy customers. Moreover, the roles they play are distributed differently than in the private sector, where the customer both expresses preferences and consumes value. In the public sector, these roles are asymmetrically divided between the citizenry and clients. The value produced by government is ‘consumed’ *both* by the citizenry (who receive public value) and the clients (who receive private value), but it is the citizenry who have the dominant say, through the democratic political process, not only about public value (and about how it is to be paid for) but also about the private value that clients are supposed to be delivered.

Prima facie, it seems that the private sector customer model is not very applicable to the public sector, and that therefore a customer focus based on market exchange is of limited use in government. However, to avoid a focus on exchange would be to forego an important benefit

to be derived from seeking to satisfy clients: that it can elicit valuable and sometimes essential contributions to the work of organisations. An exchange-seeking mindset emphasises respect for the wishes of the members of the public with whom a government agency deals (Thompson 1993, 316). To prompt reciprocity in an exchange, an organisation must offer to the client something which he or she values. It must therefore try to be as cognisant as possible of what the client wants (Kotler 1972). As Kettl puts it

... 'customer service' essentially requires that government be responsive to citizens' needs and wants. The presumption is that too often government becomes inward-directed, toward the myriad rules, procedures, and forms that preoccupy public managers. Forcing these managers to focus outward on citizens, for whom public programs were originally created, is intended as an antidote. Such an approach is consistent with traditional theories of accountability. (1995, 55)

Not only can the important values of accountability and fairness be advanced by this approach, but so too can the managerial purpose of improving the efficiency and effectiveness of public agencies.

A broader conception of exchange

Although *economic* exchange is of limited validity in dealings between public sector agencies and their publics, *social* exchange offers a useful way of thinking about them (Ekeh 1974; Turner 1982). An important strand of anthropological and sociological thought since World War I (Frazer 1919; Malinowski 1922; Mauss 1925/1954; Levi-Strauss 1949/1969; Homans 1961, 1962; Blau 1964), social exchange theory embodies a broader notion of exchange which can be usefully applied to the distinctively public sector roles of citizens, beneficiaries, and obligatees (for an earlier perspective on this see Wamsley and Zald 1973).

First, it can entail the exchange of a broader set of things than only tangible items such as money or goods. For example, people may give each other things which have intrinsic value, such as autonomy or opportunity, or which are of social significance, such as respect or status, or which have purposive value, such as affirming fairness. In fact, social exchange can be of anything which the parties value.

Second, social exchange can involve multiple parties, and more elaborate forms of reciprocity. The market transaction, which is known as 'restricted exchange' (Levi-Strauss 1949/1969), occurs between only two

parties, who adopt a *quid pro quo* mentality confined to short time-intervals. However 'generalized exchange' (Levi-Strauss 1949/1969, 220), involves at least three parties who 'do not benefit each other directly but only indirectly' (Ekeh 1974, 48). This set of exchanges does not involve simple *quid pro quo*, and can entail delayed reciprocity, but the overall result over time is that all of its participants both give and receive something in a circular process. Here, reciprocity is generalised as well as mutual.

Both these aspects of social exchange – the broader range of values exchanged and its generalised nature – usually entail less precise and more deferred reciprocity than economic exchange. Exchanging less concrete values leads to calculation of the precise benefits given and received being more difficult, whereas more circular exchange necessarily means delayed reciprocity. Instead of having short-term *quid pro quo* expectations, people hope that they may benefit at some unknown point in the future, and obligations are discharged over time and less precisely. Such relationships rely on trust between the parties, 'the belief that individuals are credit worthy and can be trusted to pay back what they owe' (Ekeh 1974, 59). They also tend to be more relational than transactional in nature.

It should be emphasised at this point that generalised exchange is more than a theoretical notion. It is an empirical reality, observed in numerous anthropological field studies (Malinowski 1922; Levi-Strauss 1949/1969; Titmuss 1970; Ekeh 1974). More importantly, it embodies the same critical reciprocal aspect as restricted exchange: that *each party's giving to the exchange is conditional upon the other parties also doing so*, although not as precisely. In restricted exchange, each actor's willingness to give something is directly related to whether the other actor has already given or will give something in return. In generalised exchange, whether each actor is willing to give is enhanced by his/ her perception that other actors have already given or are likely to give something as part of the circular process. What will encourage one party to expect another to give is the strength of norms among the parties that attach value to the group they constitute, its rules and its shared purposes. These norms will in turn be fostered by the experience of successful reciprocity.

This broadened conception of exchange has also been taken up by marketing scholars, who have articulated a notion of social marketing for public, non-profit or social organisations (Kotler and Levy 1969; Kotler 1972; Bagozzi 1975; Kotler 1982; Lovelock and Weinberg 1984; Rados 1996),⁵ although they have had difficulty breaking out of

the market mindset in the way they have applied them to the public sector.

Exchange and public sector consumers

The notion of exchange can help make sense of relations between public sector organisations and members of the public other than paying customers, namely, beneficiaries, obligatees, and citizens.

Exchange and beneficiaries

Consider the role of beneficiary, where no direct exchange takes place between the organisation and the consumer. Instead, the real exchange could be said to be that between the government organisation and the citizenry in general. Programs for beneficiaries are authorised and funded not because the client has any money to offer the organisation in return for the private value he or she thereby receives, but because the program as a whole offers public value to the citizens collectively. The kind of public value will be specific to the program in question, and therefore varies greatly. It will usually involve a complex mix of economic, normative and symbolic values.

Take the case of pupils in government schools. The government's education department funds schools (for such things as teacher salaries, facilities and equipment)⁶ from which students receive an education, and their parents, who often play an important role in selecting the school, hopefully receive assurance that their children are getting the literacy, numeracy and other knowledge they need to equip them for life. This education constitutes private value for students (and for their parents): it has a significant effect on their future life-chances. But apart from some ancillary funding from parent or perhaps alumni organisations, neither the students nor their parents pay any money to the government for this schooling. The government funds schooling not in the expectation that students will give it something in return, but rather to fulfil a mandate endowed upon it by the citizenry. The citizenry receives public value in return for the authority and resources it bestows on the education department and the schools. Most broadly, it receives a kind of public good: an educated society is one in which a citizen can expect that it is easier to communicate with fellow citizens, that social networks will therefore function better, that the level of cultural development will be more sophisticated, that innovation is more likely, that technological infrastructure will be more advanced, and that the economy will be more developed.

It could be argued that this public value could just as well be created by parents arranging and paying for their children to be educated privately, prompted by the private value they gain, and that therefore government funding is unnecessary. But another important value is also at stake, which the private market cannot provide: social equity. This stems from the fact that some people have insufficient resources to afford schooling – or to afford doing without income which young people might earn for a family if they were not at school. It is widely held that everyone has a basic right to at least a minimal level of education, and that therefore those who cannot afford schooling should have it provided for them. It has also been the norm – now under challenge – that such education is best delivered through government production, that is, by government schools (operating alongside private ones). More recently, some have pressed for competitive markets in schooling, with the equity issue to be handled by providing poorer people with vouchers with which to purchase education. Whatever the merits of the two approaches, it is noteworthy that both entail government funding, driven by the fundamental principle of equity.

More specifically, regardless of whether schooling is delivered by public or private institutions, government plays a role in upholding quality, thereby providing public value by reducing parents' search and transaction costs. To the extent that teacher qualifications, curricula and textbooks are subject to certain standards and monitoring, parents have to spend less time ascertaining which schools are of sufficient quality, or can to some degree assume a basic level of quality in whatever school their children attend.

At first sight, this public value could be seen as part of a direct exchange between the citizenry and the education department. The citizenry provides the money for schooling and in return receives public benefits such as a civilised society, economic and technological development, social equity and reduced transaction costs. But it could also be seen in terms of a less direct exchange. In return for their own personal education, the students reciprocate not directly to the education department, but indirectly to the community at large, in their myriad acts of participation in and contribution to a civilised society and its economic infrastructure. To the extent that they do so competently, the citizenry perceives that the education department is doing its job properly, and bestows its consent in turn on that agency.

This can be characterised as generalised exchange. Thus, the government organisation provides public value to the citizenry in the very act of providing private value to its beneficiary clients. This generalised

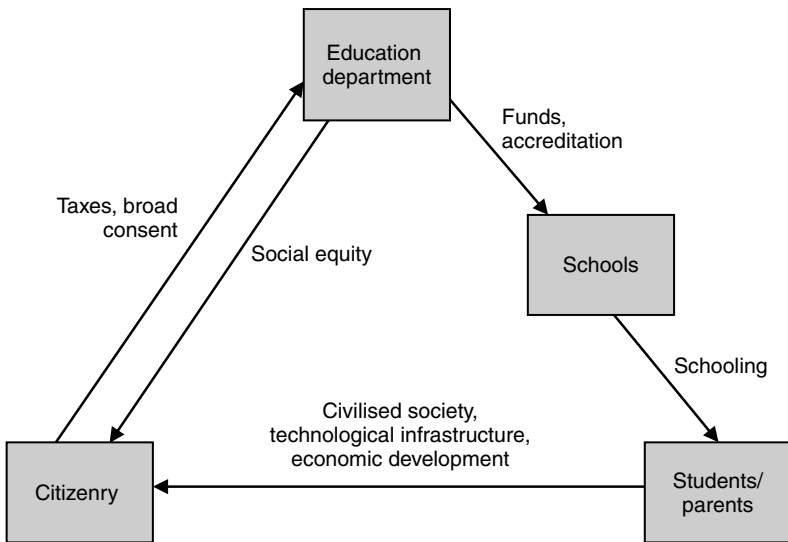


Figure 2.1 Generalised exchange among an education department, schools, students, parents, and the citizenry

exchange is diffuse and deferred in nature; the citizenry does not expect to appropriate the public value immediately, nor does it calculate it in precise terms. These circular exchanges are shown in Figure 2.1, together with the flow of public value to the citizenry.

Analogous accounts could be given of the beneficiaries of a wide variety of agencies, such as social security administrations, fire brigades or public housing departments. The clients of these types of agencies do not pay directly or exactly in exchange for the individual benefits they receive, but they are likely to contribute to public value, such as social order, preventing conflagrations from spreading, or reduced street-begging as a result of receiving them. Thus, they ‘pay’ in behaviours rather than with money.

Exchange and obligatees

The other ‘consumer’ role which departs from that of paying customers is that of obligatee. Here the ‘client’ does not receive valued goods, but on the contrary is disadvantaged by the agency imposing obligations. Take the proprietors of small cafes, subject to regulation by a public health agency.⁷ Those who are careless, lazy or miserly mainly ‘receive’ obligations to do things which are onerous or costly – such as

to scrub tables, benches and utensils thoroughly or to install refrigeration equipment – or not to do things such as misrepresenting ingredients in food served. The public health agency is not attempting to secure repeat business, and therefore its first objective is not to have proprietors ‘delighted’ with their inspections. It does not seem right, therefore, to compare these obligatees to ‘customers’.

Interestingly, however, many regulatory agencies do so (Sparrow 1994), suggesting that there may be something to the idea. Drawing on social exchange theory, we can make sense of this as a case of the client providing not money but *compliance* – specifically, positive actions consistent with the organisation’s requirements. The organisation is seeking not delighted customers but ongoing compliance, without which it cannot effectively function.

There are several ways an agency can secure that compliance. One is to apply *coercion* against those who do not co-operate, with the aim of deterring obligatees from unlawful behaviours. However this approach is problematic if obligatees are wilfully resistant. In that case, securing compliance is likely very expensive. For example, the public health officers would have to make frequent inspections, taking costly bacterial samples, if cafe owners deliberately flouted the regulations. This would constitute a drain on the agency’s resources. If all food outlets acted in the same way, it would be impossible for the agency to inspect them all with the requisite intensity – not to mention collect sufficient evidence and mount cases to prosecute them. A similar argument can be advanced about other agencies whose function is to impose legal obligations. If the obligatees are resistant, creating compliance is costly (Diver 1980; Bardach and Kagan 1982; Grabosky 1995a). The challenge, therefore, is to elicit from proprietors some degree of willing co-operation.

A way of doing this is to encourage them to identify with the agency’s purposes by making them aware that it is in their own interests to have hygienic conditions in their cafes, since they will lose customers if they gain a reputation as a likely source of food-poisoning. Such *identification* can be encouraged either by appealing to self-interest or by resonating with other motivations such as intrinsic or normative ones.

A third approach to securing compliance can be described as *exchange*. This entails recognising obligatees’ rights and needs and seeking to meet them as far as possible, given the primary responsibility to impose legal obligations – which amounts to treating them in a client-like manner. Importantly, this would include understanding why obligatees might not comply, which might be due to a lack of knowledge rather than unwillingness to do so. In this case the agency could help make it easier

by providing technical advice or information. It also means applying its coercive powers in a way the obligatee regards as just and fair, to the extent possible. The strong evidence from research is that most people will comply with legal sanctions, even if they lose out by doing so, if they feel that those sanctions have been applied in a fair manner (Tyler 1990; Ayres and Braithwaite 1992).

Of course, there will always be some obligatees who are deliberately resistant, and the agency will need to exercise coercive powers against them. This is not exchange, since the agency is not giving these obligatees anything valuable, but rather disadvantaging them. Coercion therefore falls outside the notion of exchange, properly understood. By contrast, providing assistance and advice, and fairness in dealings with obligatees, can reasonably be seen as part of an exchange process, in that treating people helpfully, fairly and respectfully is to give them something valuable. In return for fair treatment, the agency receives more voluntary or at least less grudging (and less costly) compliance.

In fact, the identification process described above can also be seen in exchange terms. Encouraging identification with a public purpose through information and persuasion is analogous to highlighting the virtues of a product in the private sector. The more valuable the clients perceive the purpose to be, the more likely they are to reciprocate with compliance.

In the process of exchange with obligatees, the agency also facilitates an exchange between the citizenry and obligatees. In return for café proprietors minimising the externality of food-borne diseases, the public favours them with increased (or less reduced) patronage, all else being equal. At the same time, the agency provides value directly to the public in the form of information (manifest in reporting of prosecutions or public naming in agency media releases) about which food outlets have substandard hygiene or misrepresent their food contents. Two kinds of market failure are thereby addressed: negative externalities and information-asymmetry. Thus, the public health agency is engaged in exchanges both with the citizenry and with café proprietors, as illustrated in Figure 2.2.

Public sector exchanges

Both beneficiaries and obligatees share with paying customers the fact that they are engaged in exchanges with public organisations. But they 'pay' not with money but with *behaviours*. They provide *co-operation* or *compliance* with agency processes or citizens' expectations. Since such behaviour enables the agency to reach its goals more readily, it

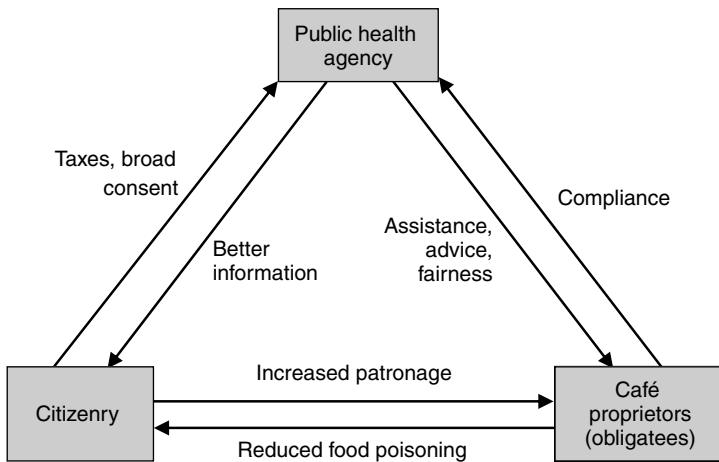


Figure 2.2 Exchanges between a public health agency, café proprietors, and the citizenry

is a valuable resource, just as customer revenue is to a private company. Both beneficiaries and obligatees are involved in exchanges with the citizenry in the very process of dealing with the agency, that is, in complex circular exchanges rather than just restricted ones. These exchanges are more diffuse and often delayed, but they are nonetheless identifiable exchanges, which can be influenced by managers.

In fact, even paying customers can be seen as taking part in complex exchanges. For example, when the mass transit commuter purchases a ride, in a direct private transaction, a more diffuse and collective exchange occurs simultaneously. Typically, mass transit systems are subsidised by the public purse. The reason is that they create public value, such as mitigation of traffic congestion and air pollution (Maddison et al. 1995; Delucchi 1997), as well as private value.

Multiple roles

I have identified four types of roles played by consumers in their interactions with a government organisation. In fact, very rarely is a specific consumer solely a paying customer, a beneficiary or an obligatee. Typically he or she plays two or more of these roles at the same time, on top of the more fundamental role of being a citizen.

Take, for instance, the school students. They are not only beneficiaries, but also obligatees. The school acts *in loco parentis*, and is authorised to enforce behavioural rules with the children in its care, including

ones to do with engaging in learning processes and home study. Thus the benefits students receive from schooling are accompanied by obligations. To secure their compliance with the rules, schools can apply coercive powers, such as detentions, suspensions or ultimately expulsions. But it can also seek to understand the factors that make it difficult for some students to comply – such as attention deficit disorder or family dysfunction – and by addressing them, for example with medical advice or social work interventions, try to make it easier for students to function as expected. In other words, it can also elicit compliance from its beneficiaries/obligatees by treating them like customers.⁸

Defining clients

Simmering in the background of this discussion is the question of just what we call the ‘members of the public’ with whom government organisations deal. Are they consumers, customers, clients, or what? The literature is replete with earnest treatments of the relative merits of these terms in a public sector context (see Flynn 1990; Scrivens 1991).

What is clear from consideration of this literature is that there is no satisfactory answer to this question. Each term has its valid claims and its drawbacks. More confusingly, each is used in different ways in different circumstances. Consider, for example, the ‘client’ of a lawyer, a building company, a social worker, a super-power nation, and a government agency. Each situation raises different issues and nuances. Moreover, these terms change over time: ‘client’ meant something quite different in past centuries from what it means today.

One approach to defining the particular ‘publics’ in question is to examine how those using public services themselves name their role. In a recent study of policing, health and social care services, Clarke, Newman and others (Clarke et al. 2007; see also Clarke and Newman 2007) found firstly that people employed multiple terms in complex combinations for a variety of contextual reasons. Second, it found that while people refer to a wide variety of identifying labels for their roles – consumer, customer, patient, service user, citizen, member of the public, and member of the local community – not many of them (just under 7% in a small-sample questionnaire) use the terms ‘consumer’ or ‘customer’, and only slightly more use the term ‘citizen’. Most popular are ‘member of the local community’ (24%), ‘member of the public’ (22%) and ‘service-user’ (20%) (n.b. respondents could nominate any two of the options, which did not include ‘client’) (Clarke et al. 2007, 128).

These findings lend weight to the notion that people have multiple roles rather than belonging to one category or another. They also suggest that terms derived from the private sector like ‘consumer’ or ‘customer’ don’t resonate with government agencies’ publics, tending to support the argument that these terms are inappropriate descriptors. However, the concern in this study is not with whether people *subjectively* identify with one label or another, but rather with the roles inherent in their objective, structural situation, as discussed in this chapter. Thus, a welfare-recipient may consider herself a consumer or a service-user as well as a member of the local community, but in the terms of this analysis she embodies a mixture of the roles of citizen, beneficiary and obligatee, and in the latter two capacities she is a client.

The term ‘client’ is adopted here, and hence in the title of this book, to describe the members of the public with whom government agencies deal at their ‘business end’, as much because of what it is not as what it is. Specifically, it is preferred to ‘customer’ because it lacks that term’s private sector connotations. It is preferred (marginally) to ‘consumer’ because it lacks that term’s connotation of being about goods rather than services, which are more the concern of the public activities dealt with in this book. It is preferred to ‘user’ because that term connotes a more passive role than either ‘client’ or ‘customer’.

In a sense, it does not really matter what the correct term is. What does matter is the substantive content of the term. As Humpty Dumpty put it in *Through the Looking Glass*, ‘When I use a word, it means exactly what I choose it to mean, neither more nor less.’ This book will follow Humpty’s dictum, but be less whimsical in applying it. Specifically, the meaning of substantive concepts, understood within the analytical framework outlined, is

- A ‘customer’ is the buyer in a private (or public) sector market transaction, as elaborated in the foregoing section on ‘paying customers’.
- A ‘client’ is either a paying customer, a beneficiary or an obligatee, as set out in the foregoing.
- Both of these terms describe roles rather than categories, and any person can have a mixture of these roles, together with that of citizen.

Client co-production, therefore, can be defined as any public service co-production (as defined in Chapter 1) *by a person with one or more roles of paying customer, beneficiary or obligatee.*

Co-production in the client service perspective

Interestingly, those who press for a greater focus on clients in the public sector have little to say about co-production (but see Flynn 1990; Hood et al. 1996). There is consequently a poignant symmetry: just as public sector co-production has tended to neglect clients, so too does the public sector client service perspective almost entirely neglect co-production. However, the notion of clients as co-producers has received considerable attention in the field of services marketing, derived largely from private sector templates, since about the same time that public sector co-production emerged (Chase 1978, 139–40; Lovelock and Young 1979, 168–9; Mills, Chase and Margulies 1983; Bowen 1986; Schneider and Bowen 1995, 85; Lengnick-Hall 1996). This field offers insights relevant to the two key questions of this book.

Services marketing has offered three answers to the question of when it might be appropriate to utilise or enhance customer co-production. Firstly, it is not only appropriate but also unavoidable when service production and delivery are absolutely inseparable, for example, a hairdresser (Chase et al. 1984; Bowen 1986). This is similar to the notion of interdependency considered in Chapter 1. The second rationale for customer co-production is also similar to a notion considered in Chapter 1: substitutability. As Bowen puts it, customer involvement is useful when they ‘can supplement, or substitute for, the labour and information provided by employees’ (1986, 375). Indeed, some services marketing experts echo the prescription that wherever co-production is substitutable for organisational production, the question of which should be used depends on the relative costs and benefits to both (Lovelock and Young 1979, 177; Mills et al. 1983, 302–3). However, Bowen suggests another factor to consider: when ‘customers have the abilities necessary to perform their roles’ (379). He recommends that organisations take steps to ‘select’ customers who do have such abilities, by appealing to particular types through their marketing processes (380). Lengnick-Hall (1995, 1996) also focuses on the customer’s competence as a critical determinant of whether to substitute co-production for production.

On the question of what motivates clients to co-produce, the field is limited by its focus on private sector market transactions to explanations based on individual self-interest. As Schneider and Bowen bluntly state:

Question: What motivates customers? Answer: Self-interest, the same thing that motivates everyone. The implication is that when

customers are faced with self-service or coproduction service tasks, they must see that there is something in it for them – some kind of reward. (1995, 96)

But within that narrow sphere, services marketing goes beyond the material rewards favoured by the public choice perspective. In addition to extrinsic rewards, several writers point to *intrinsic* rewards as possible motivators of customer co-production. Intrinsic rewards consist of the ‘self-administered “kick” we get out of doing something, particularly when we do it well’ (Schneider and Bowen 1995, 96) or ‘the sheer enjoyment of the service experience’ (Bowen 1986, 381). They can derive from increased self-esteem because of increased control, or from greater discretion and opportunities to make choices (Lengnick-Hall 1996, 804). They are fostered by the building of trust between the organisation and the customer (Lovelock and Young 1979, 173–4).

The services marketing experience has also elaborated another factor: making it easier for customers to co-produce, both by reducing the ambiguity or complexity of the task and by enhancing the customer’s capacities to perform it. Bowen argues that in addition to rewards, customers must have role-clarity (that is, be clear about what is expected of them) and the ability to perform as expected (1986, 379–80). The former calls for devices to ‘orient’ customers to the service setting, such as clear service design, information or guides (Lovelock and Young 1979, 174; Mills et al. 1983, 307; Lengnick-Hall 1996, 804). The latter is partly a matter of selecting the correct customers, as discussed above. But quite often economic or legal reasons preclude the exclusion of less able customers, and in such cases the organisation should seek to ‘train’ them (Schneider and Bowen 1995, 93–4; Lovelock and Young 1979, 175; Lengnick-Hall 1996, 804).

Conclusion

Efforts to apply the private sector customer model – and in particular its focus on transactional exchange – to government organisations have in most cases been misconceived, since the conditions on which that model is based do not exist in many public sector activities. Often they do not entail a voluntary exchange of money for goods or services.

But by broadening the range of values which might be exchanged, and the set of possible parties to that exchange, it is possible to make sense of relations between government agencies and the members of the public with whom they deal in terms of exchange, and thereby enable

a more precise definition of client co-production. The range of values includes not only private values but also public ones, and not only economic but also normative and symbolic ones. Consequently, the types of exchanges may range from immediate, calculative economic ones to deferred, diffuse social ones. The range of parties embraces both the collective citizenry and individual clients, who include not only paying customers like those in the private market, but also beneficiaries and obligatees. In any particular activity, a government organisation will simultaneously create both public and private value, affecting both the citizenry and individual clients. Those clients may embody one or more of the roles of paying customer, beneficiary or obligatee.

3

Legal Compliance, Regulation, and Co-production

Introduction

Both the previous chapters have raised the issues of compliance and legal compulsion. In Chapter 1, a distinction was drawn between compliance, which was defined as people acting in accordance with agency requirements, and compulsion, which is only one of the reasons why people might comply. It was argued that in this context all co-production constitutes a form of compliance, since it entails contributing to agency purposes in response to some action or behaviour by the agency. The literature concerning legal compliance is therefore very relevant to the present inquiry, and especially to the question of what stimulates people to co-produce. Scholars in the social and human sciences have extensively researched the issue of why people comply with their legal obligations, and many of their findings offer suggestive insights for co-production research.

The literature on legal compliance also offers insights into a related issue which the previous two chapters touched on but left unresolved: the relationship between compulsion and voluntary action. Chapter 1 noted that although only actions which are at least partly voluntary can be seen as co-production, it can in practice be difficult to draw the line between coerced and voluntary compliance. Chapter 2 observed that obligatees comply with their legal obligations partly because they are compelled to do so, but also, to a greater or lesser extent, because they perceive those obligations as legitimate, or the process of applying them as fair and helpful.

The relationship between coerced and voluntary compliance is therefore unclear, and potentially problematic. In the first place, coercion and voluntarism seem *prima facie* to work quite differently, and may

well be at odds with each other. How then does coercion affect the voluntary impulse which is at the heart of this inquiry? In the second place, coercion seems to constitute a boundary to the exchange relationship, since only compliance granted in return for fair treatment can be seen as part of a voluntary exchange. What is the line between compulsion and voluntarism? Researchers in the field of legal compliance have addressed themselves in abundance to these questions.

This chapter considers aspects of this literature, specifically that on criminal deterrence and regulation, to elaborate and refine the concepts developed in the previous two chapters on the issue of what does and does not prompt clients to co-produce, and in particular on the role of compulsion.

The neglect of co-production in the compliance literature

However, the generalisation of these insights from the legal compliance area is limited by the fact, noted in Chapter 1, that not all compliance involves co-production. As defined in this book, co-production entails active rather than passive behaviours. But the notion of compliance embraces both kinds of behaviours. Specifically, some forms of compliance entail simply refraining from doing something prohibited, such as robbing a bank, committing a murder, perpetrating a libel, or driving a motor vehicle at excessive speed. In each of these cases, compliance means doing nothing beyond some inertial or 'normal' state. It requires no effort and no prior thinking about what specific actions to take. In the definition adopted in this book, this type of compliance does not fall within the domain of co-production.

But other forms of compliance involve taking positive actions, such as installing safety guards on factory machines, attaching registration tags to household pets, taking part in jury or military service, scrubbing the utensils and surface areas in a restaurant kitchen to required hygiene standards, or separating recyclable materials from the rest of one's garbage. In these cases, compliance requires the expenditure of consciously directed effort. It entails deviating from the inertial state. Where it is at least partly voluntary, this type of compliance can validly be called co-production.

Some forms involve a mixture of passive and active behaviours. For example, complying with the obligation to keep public spaces free of litter means both refraining from dropping litter and taking the positive step of depositing it in a bin. But to the extent that it calls for some positive action, this compliance is a form of co-production.

Table 3.1 Forms of compliance

Behaviour	Compulsory	Voluntary
Passive	Passive compulsory (e.g., refraining from robbery because of fear of punishment)	Passive voluntary (e.g., refraining from robbery because of moral values)
Active	Active compulsory (e.g., prison labour)	Co-production

The respective domains of co-production and compliance can be most clearly seen in terms of a typology, constructed from the two dimensions of compulsory-voluntary and active-passive, as shown in Table 3.1. Significantly, while much of the research on legal compliance considers specific activities that involve active compliance, hardly any of it explicitly identifies it as such, or distinguishes between active and passive compliance.

Given that all co-production can be seen as a form of compliance, as broadly defined here, it follows that law enforcement, regulatory and other agencies engaged in the imposition of obligations have developed a body of practice which offers insights into co-production. This experience is very relevant to our second question, of what motivates clients to contribute time and effort. Most particularly, it can add to our understanding of the role and limitations of *sanctions* in eliciting co-production.

Criminal deterrence: Proponents and critics

A special concern of law enforcement agencies, such as the police, is how to deter crime. In this field, a distinction is usually drawn between special and general deterrence. *Special deterrence* refers to ‘the effect of imposing criminal sanctions on the subsequent behaviour of the individual actually punished’, usually measured by observed recidivism (Nagin 1978, 95). The limited available evidence suggests that punishment is ineffective in deterring offenders themselves from committing subsequent crimes (Klepper and Nagin 1989, 135). Much greater research attention has been paid to *general deterrence*, which is ‘the symbolic effect that punishment may have on potential criminals’, by signalling to the general public the likely costs of committing a crime, and thereby discouraging criminal acts (Nagin 1978, 96).

Early general deterrence thinking adopted an expected utility approach. Economist Gary Becker (1967) argued that people rationally

weigh the costs and benefits of criminal behaviour in terms of three factors: the likely gains from the crime; the likelihood of being punished; and the severity of punishment. Subsequent economic studies (Ehrlich 1973; Sjoquist 1973) not only supported this approach, but also drew attention to the role of incentives and opportunities for criminal behaviour, as affected by the legal wage rate and job prospects. Sociological studies also lent weight to the general deterrence approach, finding that crime rates vary inversely with both the certainty of being punished (measured, for instance, by the ratio of prison commitments to reported crimes) and the severity of punishment (measured by time served in prison) (Gibbs 1968; Tittle 1969).

However, these early conclusions were qualified in the 1970s (Blumstein et al. 1978), when it was found that other factors besides formal sanctions played important roles in deterring crime. While the perceived certainty of detection was significantly inversely related to crime rates, the perceived severity of formal sanctions was not (Silberman 1976; Erickson et al. 1977; Grasmick and Bryjak 1980). Instead, what was important was the perceived severity of *informal* sanctions – the loss of respect of family, friends, and peers (Meier and Johnson 1977; Grasmick and Green 1980; Tittle 1980). Moreover, people were more likely to commit a crime if they had experience with other criminal offenders (Akers et al. 1979), or they had a lesser sense of moral obligation to uphold the law (Klepper and Nagin 1989). In the 1980s, it was suggested that much of people's perception of the certainty and severity of punishment resulted from rather than caused criminal involvement (Greenberg and Kessler 1982; Minor and Harry 1982; Paternoster et al. 1983; Liska and Reed 1985).

An implicit assumption in the thinking to this point was that, at worst, sanctions could merely *fail to induce* compliance. The differences between the advocates of deterrence and their critics turned on the relative strength of sanctions as opposed to other motivators as alternative explanations of compliance. But more recent work indicates not only that sanctions may fail to induce compliance, but also that in certain circumstances their application may actually provoke resistance and *non-compliance*.

Focusing on informal or social sanctions, Braithwaite (1989) examined the shaming effects of criminal enforcement and punishment. He proposed that criminal sanctions could be applied in either of two ways, each mobilising shame to different effect. One is 'stigmatic' shaming, which humiliates the person committing the crime, whereas the other is 'reintegrative' shaming, which draws social opprobrium on the crime

itself. Braithwaite argued that whereas reintegrative shaming tends to limit crime by inducing guilt and responsiveness in wrongdoers, stigmatic shaming tends to provoke more of it, by inducing anger and resistance. The offender is less able and ready to handle rejection of himself or herself as a person than to acknowledge shame over the act itself, and repair social bonds to the sanctioning organisation or the community. In the former case, he or she may bypass the shame and may become distanced from the organisation or community.

People's moral values are also important. Tyler (1990) demonstrated that when people perceive sanctions or the procedure by which they are applied as fair, the legitimacy of law enforcement in their eyes is heightened, and hence their willingness to comply with it. However, when they perceive that a sanction is unfair, or has been applied in an unfair manner, legitimacy and compliance are reduced. In particular, people are concerned about the *processes* of the law – such as 'whether they have had a chance to state their case and been treated with dignity and respect' (1990, 178) – rather than about the outcomes, such as the relative severity of the sanction. Indeed, people will usually accept a severe sanction provided they believe it has been applied through a fair procedure. This is a challenge to the instrumental view underlying deterrence theory (i.e., that people's law-abidingness is in response to 'changes in tangible, immediate incentives and penalties associated with following the law'), and counter-poses to it a normative perspective, concerned with 'the influence of what people regard as just or moral as opposed to what is in their self-interest' (Tyler 1990, 3).

Also important is people's degree of social bonding to the sanctioning organisation or the community at large (Scheff and Retzinger 1991). Sanctions provoke future defiance of the law when offenders experience sanctioning conduct as illegitimate, have weak ties to the organisation or community, and deny their shame and become proud of their isolation from the sanctioning community (Sherman 1993, 448–49). For example, a member of a street gang, arrested for a crime he actually did commit and subjected to rough police treatment, is likely to bypass shame by focusing on the illegitimacy of the treatment, expressing that in terms of defiance, and reinforcing that defiance by taking pride in his distance from the police.

It could be argued that these points are only relevant to special deterrence, since they concern the effect of criminal sanctions on the individual actually punished. However, they can also apply where members of a community perceive sanctions against friends, relatives, neighbours, or others among them as illegitimate or unfair, leading to what

Sherman describes as 'general defiance' (1993, 459). In other words, perceived breaches of moral norms such as substantive or procedural justice can lead to greater general non-compliance.

In summary, the factors seen as motivating compliance in the criminal deterrence field correspond with what has already been shown to motivate people to take part in co-production. Material self-interest has prominence in both fields, but in the criminal deterrence research, it is seen as being mobilised not so much by material rewards as by sanctions, which prompt people to weigh the likely costs of non-compliance against its benefits. There are also other explanations which are similar to those in the co-production – most notably, sociality (informal sanctions) and normative values. In some circumstances, appealing to self-interest through legal sanctions can actually diminish compliance, by undermining sociality or normative values. While sanctions are necessary to secure compliance, the way in which they are applied can either maintain or diminish their compliance effect.

However, this body of research and practice is only indirectly applicable to co-production. The focus of criminal deterrence differs from that of co-production in that it is by its very nature about *passive* rather than active compliance. It is concerned with how people are *deterred from* 'committing crimes', that is, from taking positive actions. By contrast, co-production is about encouraging people to take such positive actions. The working mechanisms of criminal deterrence and co-production may therefore differ, and to the extent that they do, the insights of the former may have to be qualified to apply them to the latter.

Regulation

Regulation is different in important respects from the deterrence of offences against the criminal code. Whereas criminal deterrence is usually directed against individuals, the targets of regulation are organisations, usually private companies. Whereas criminal deterrence usually aims to prevent random, one-off events, regulation concerns ongoing behaviour. The relationship between the regulatory agency and firms is therefore continuous and subject to repeated interactions (Kagan 1984). Moreover, the behaviours required of firms under regulation are usually more elaborate and complex than those under the criminal code. Most significantly for the present analysis, many if not all of the behaviours required under regulation can be classified as active compliance; they entail positive actions by obligatees. To the extent that these actions are voluntary, they constitute co-production in the sense used in this book,

and the field of regulation may provide insights into what motivates clients to co-produce.

The traditional view, inherent in the original charters of most regulatory agencies, is that strong sanctions are necessary to make companies comply with the law (Erich and Posner 1974; see also Wilson 1984; Sigler and Murphy 1988). As Kagan and Scholz portray it

... today's most widely accepted model of corporate criminality portrays the business firm as an amoral, profit-seeking organization whose actions are motivated wholly by rational calculation of costs and opportunities. In this Hobbesian view..., businessmen, driven by the norms and pressures of the marketplace, will break the law unless the anticipated legal penalties... exceed the additional profits the firm could make by evading the law ... (1984, 69–70)

This view is analogous to that advanced in the early criminal deterrence research referred to above, placing material self-interest at the forefront of human motivation (Reiss 1984). However, most regulatory officials have long been aware that securing corporate compliance is a more complex matter, entailing some degree of persuasion (through informal sanctions and moral appeals) as well as punishment. This has been marked by a growing concern not about whether punishment or persuasion should predominate, but rather what balance should be struck between the two (Bardach and Kagan 1982; Scholz 1984; Rees 1988; Sigler and Murphy 1988; Ayres and Braithwaite 1992).

This concern is based on a growing recognition that sanctions are in significant respects counterproductive as instruments of regulation, for two underlying reasons. One is that not all company executives are motivated solely by profit (Hawkins 1984; Kagan and Scholz 1984). Other motivations include sociality and moral values. In a study of the impact of adverse publicity on corporate offenders, Fisse and Braithwaite (1983) found that business executives attached great importance to a good reputation – not only because of its impact on profits but also for its own sake. In other words, they were motivated by sociality as well as by material self-interest (see also Hawkins 1984; Gunningham 1991).

Moreover, contrary to the stereotype of the amoral profit-seeker cited above, many corporate executives, while maintaining a basic concern with economic return, also attach importance to moral and legal responsibilities (McKie 1974; Kagan and Scholz 1984). In a study of coal-mine safety enforcement, for instance, Braithwaite (1985) found more than a few examples of mining companies, and more particularly of mine

managers, who were committed to doing the right thing about safety, even though it might cost money. In particular, regulators themselves often observe that corporate actors exhibit a principled willingness to obey the law for its own sake, and varying commitments to social responsibility among at least some of their executives (Robens 1972; Kagan and Scholz 1984; Braithwaite 1985; Grabosky and Braithwaite 1986; Leone 1986; Sigler and Murphy 1988; Sparrow 1994). Thus, while it would be naïve to discount the importance of economic rationality among business obligatees, it would also be short sighted to ignore that many of them have moral concerns as well. As Ayres and Braithwaite put it

Some corporate actors will only comply with the law if it is economically rational for them to do so; most corporate actors will comply with the law most of the time simply because it is the law; all corporate actors are bundles of contradictory commitments to values about economic rationality, law abidingness, and business responsibility. (1992, 19)

The problem for regulators is that where corporate executives who have some commitment to obey the law see the application of regulations as unfair or arbitrary, they will feel resentment towards the agency and/or the law (Bardach and Kagan 1982; Braithwaite 1985; Grabosky 1995a).

The second reason that sanctions have been found wanting is that it is impossible to frame regulations which take adequate account of all the corporate activities being regulated (Diver 1980; Bardach and Kagan 1982; Kagan 1984; Peacock 1984; Scholz 1984; Hood 1986; Breyer 1993; Grabosky 1995a). For example, what makes sense for one factory may make little sense for another; what made sense for the technology of ten years ago may be obsolete now. As a result, any regulation is bound to seem unduly costly, unfair or illegitimate to at least some of the companies to which it is applied. In those cases, corporate executives will be able to point to alternative ways of achieving the same public purposes with less detriment to their firms. But if the regulatory agency insists on applying the same rule to everyone, regardless of their particular circumstances, they will experience it as an arbitrary imposition. This is what Bardach and Kagan (1982) refer to as 'regulatory unreasonableness'.

Taken together, these two factors mean that regulatory enforcement directed towards punishment is very likely to generate at least some resentment on the part of those being regulated. At least part of this

resentment translates into reduced willingness to comply, manifested in various ways. At the very least, it takes the form of minimal compliance, that is, conforming to the letter of the law and no more (Bardach and Kagan 1982, 107). This may be satisfactory when the required behaviour is simple, but is more problematic when it calls for interpretation or adaptation of complex obligations. More seriously, reduced compliance can take the form of cutting off co-operation and withholding of necessary information, making it more difficult and costlier for the regulatory agency to carry out its work (Diver 1980; Kelman 1981; Leone 1986; Makkai and Braithwaite 1994; Grabosky 1995a). Most seriously, it can entail active resistance, either by individual firms or by their industry lobbies, bolstered by the aggressive use of legal devices (Bardach and Kagan 1982, 112–16).

This problem is aggravated by the same regulatory complexity which sets it off. Companies will seek to take advantage of the indeterminacy or ambiguity the complexity allows, whereupon agencies will draw the rules in more stringent detail and apply them more strictly, which the companies in turn experience as even more arbitrary red tape, and so on, in a downward spiral of increasing mistrust (Diver 1980; Bardach and Kagan 1982). One consequence is that the agency must employ more enforcement resources for such companies.

Thus, sanctions can be counterproductive as regulatory instruments, by reducing the willingness of corporate obligatees to comply, and engendering non-co-operation and resistance on their part, while also adding to the costs of regulation. But at the same time, no serious regulator would advocate the elimination of sanctions from the regulatory process. The reason, as indicated above, is that at least some corporate actors can be expected to act opportunistically and break the law if they can get away with it. If they do, the other more compliant companies will be less inclined to meet their obligations, partly because they become more aware of opportunities for non-compliance, and partly because they feel like ‘suckers’ for complying when others do not.

Combining punishment and persuasion

The criminal deterrence and regulatory fields suggest that both punishment and persuasion play a role in eliciting compliance and have sought to develop ways of combining them for optimal effectiveness. Given that for some clients, as discussed previously, it is difficult to disentangle voluntary from coerced co-production, these experiences turn out to be very significant for this book. Two of the most notable

contributions, both based on Axelrod's (1984) 'Tit for Tat' (TFT) solution to the 'Prisoner's dilemma', are by Scholz (1984) and Ayres and Braithwaite (1992).

Scholz adopts a rational choice perspective, in which material self-interest is the dominant motivation, but he acknowledges the complexities imposed on rationality in the regulatory arena. He recasts the problem as an 'enforcement dilemma', in which the regulator, who wants to maximise compliance, can apply either co-operative persuasion or deterrent enforcement, and the firm, which wants to minimise its compliance costs, can either comply or evade. The essence of the dilemma is that '...confrontation increases the costs of enforcement and compliance in a way that neither side may desire, yet neither side can control'. Although co-operation may be optimal for both (and for the society as a whole), '...mutual suspicions may lead to confrontation between regulator and regulated firms' (1984, 388). The agency prefers co-operation, but runs the risk that some firms will take advantage of its co-operative stance. Similarly, the firm may prefer to co-operate, but runs the risk that, in a world of complex and ambiguous regulatory laws, it can still be treated harshly by an agency 'intent on resolving *all* ambiguities in favor of the agency' (390).

Scholz argues that the enforcement dilemma can be overcome by an adaptation of the TFT strategy:

the agency sets a minimum level of compliance, and uses its less rigorous co-operative enforcement routines against any firm that met the minimum compliance level in the previous period. The more rigorous deterrence routines are used against any firm not meeting minimal compliance levels in the previous round. (1984, 393)

This means that the agency applies different strategies to different obligatees, treating compliant firms as good citizens, with whom it employs persuasion, and non-compliant ones as criminals, with whom it employs punishment.

Whereas Scholz's model is based on the assumption that firms are motivated by material self-interest, Ayres and Braithwaite (1992) arrive at a similar strategy from a different account of human motivation. Citing the substantial body of research discussed above, they acknowledge the motivational diversity of corporate executives. Some will be motivated by money alone, others will be motivated by social responsibility alone, and others – the majority – will be motivated by a mixture of the two. Among this majority will be some whose motivations are

'lexically ordered', that is, they feel that one motivation must be satisfied before the other can be addressed. For example, nursing home proprietors may take the view that they should provide a minimum standard of care as a basic requirement and then pursue profit maximisation over and above that (27–28).

The particular problem raised by motivational diversity is that neither punishment nor persuasion on its own can effectively engender regulatory compliance:

...business actors exploit a strategy of persuasion and self-regulation when they are motivated by economic rationality. But a strategy based mostly on punishment will undermine the goodwill of actors when they are motivated by a sense of responsibility. (Ayres and Braithwaite 1992, 24)

The solution to this problem, they argue, is a TFT strategy of regulation. First, companies motivated only by economic return will calculate that it is in their long-term self-interest to co-operate, for the same reasons demonstrated by Scholz above. Second, actors motivated solely by responsibility will respond to the co-operative techniques initially employed by the agency and engender further co-operative moves. Third, actors with mixed motivations will have their sense of responsibility encouraged by the dominantly co-operative stance of the regulator and their opportunistic tendencies discouraged by its potential to apply sanctions. In short, TFT enables the regulator to apply different mixtures of sanctions and incentives to obligatees with different kind of motivations. Its efficacy is evidenced by a number of studies (Shover et al. 1984; Grabosky and Braithwaite 1986; Sigler and Murphy 1988; Brown and Rankin 1990; Sigler and Murphy 1991; Makkai and Braithwaite 1994).

Ayres and Braithwaite build on the notions of motivational diversity and TFT to suggest the appropriate scope and scale of sanctions. Specifically, drawing on earlier work by Braithwaite (1985), they propose the idea of an enforcement pyramid: a hierarchy of measures, ranging from persuasion (the most commonly applied) at the bottom, through mild sanctions such as a warning letter and more severe ones such as civil or criminal penalties to licence suspension or revocation. The precise elements may vary from one industry to another, but the essential point is that having a graduated hierarchy enables the application of the right amount of sanctioning consistent with the overall TFT strategy (Ayres and Braithwaite 1992, 35–7).

More significantly, they propose an analogous hierarchy of enforcement strategies for a given industry, with different firms subject to different strategies. At the top, most rarely used, would be 'command regulation', while at the bottom would be self-regulation. In between would be strategies like 'enforced self-regulation', where each firm would be required to formulate its own rules, have them approved by the regulator, and set up an independent inspectorate to enforce them, subject to monitoring by the agency (Ayres and Braithwaite 1992, 106).

The agency's efforts, Ayres and Braithwaite argue, should be directed to influencing firms to move down the pyramid. These efforts are more likely to be effective if the agency has substantial coercive power in reserve. In other words, regulatory agencies are most effective when they function as 'benign big guns', that is, they can speak softly when they carry big sticks. The more severe the reserve sanction, the more success they can have by speaking softly.

This approach provides an answer to the question of the relationship between compulsion and voluntary compliance. In the first place, for those who are unwilling to comply, sanctions constitute a deterrent. Concerned about their own material self-interest, obligatees will weigh the costs of sanctions against the potential benefits of non-compliance. Second, for those who have some degree of willingness to comply, sanctions constitute what Ayres and Braithwaite describe as a 'spectre in the background', enabling appeals to social responsibility, which are designed to evoke trust and therefore co-operation, to occupy the foreground. This is a matter of 'subtle social construction' about whether the organisation is invoking threat (1992, 47, 48). Its application turns on the difference between being able to apply coercive power and actually applying it:

Because retaliation is not threatened, trustworthy agents can be motivated by the positive regard of being trusted. Because the power of the principal is nevertheless threatening, untrustworthy agents may calculate that it is best not to breach trust ... [T]hreat will be disguised for those who wish to be trusted, and threat becomes apparent to those who deliberate untrustworthiness... [C]ompliance is seen as natural and right rather than compelled. (Ayres and Braithwaite 1992, 48)

Role of education/assistance

Finally, the regulation literature raises one other factor affecting corporate compliance, which cuts across the punishment/persuasion dichotomy: that firms may fail to comply not because they do not wish to,

but rather because they do not know *how* to. The role of the regulator is not so much to apply carrots and sticks to motivate compliance as to provide advice and assistance to enable it. Kagan and Scholz (1984) characterise this as the ‘corporation as incompetent, regulator as consultant’ model. This image is not implausible, given the aforementioned complexity of regulatory obligations in the modern era. It is supported by a number of studies (Robens 1972; Stone 1975; Kagan and Scholz 1984; Grabosky and Braithwaite 1986; Grabosky 1995a). The actions it demands of regulatory agencies – information, advice, consultancy, and so on – typically dovetail with persuasion techniques, not only because they are difficult to employ without a co-operative relationship but also because firms tend to experience them as helpful measures.

Regulation and co-production

Regulation has more affinities with co-production than does criminal deterrence. Much of it involves inducing regulated firms to perform positive actions, and the relationship between the organisation and the obligatee tends to be an ongoing one. To that extent, the insights concerning obligatees’ motivations, and the relationship between compulsion and voluntarism, are potentially useful for theorising about co-production.

However, their transferability is limited in two respects. First, the regulation literature largely concerns companies rather than individuals. Corporate motivations are by and large different from those of individuals. Indeed, companies are better described as having interests rather than motivations. These interests are constructed from the social organisation of the company and affected by the interactions among parts of the company and with key stakeholders in its environment. Moreover, different individuals within a company will have different motivations, making it difficult to talk of homogeneous motivations across the company as a whole.

Second, although the regulation literature deals empirically with many organisation–obligatee relationships in which compliance is active rather than passive, hardly any of it draws this distinction conceptually. A few writers come close to touching on it. Bardach and Kagan, for instance, note that ‘by their nature, formal rules are enforceable only if they specify *minimum conditions* of performance or quality or whatever. They cannot be designed to bring about higher levels of aspiration or continuous improvement or concern about quality’ (1982, 100). Veljanovski comes closest, in noting that regulatory offences differ

from non-regulatory criminal offences in that 'they generally do not involve a positive act, but rather a failure to act' (1984, 179). But he takes this observation no further. Certainly the regulation literature lacks a systematic *theory* of active compliance.

Conclusion

The literature on legal compliance and regulation is relevant to the subject of client co-production because it concerns one of the types of client identified in the previous chapter: obligatees. Examination of this literature reveals that people's motivations to comply with their legal obligations are similar to some of those identified in previous chapters on co-production and clients. Specifically, material self-interest, sociality, and expressive values seem to play important roles in legal compliance. Each is affected in different ways by sanctions. People motivated by self-interest tend to comply when threatened with punishment, calculating that the costs of sanctions outweigh whatever benefits there may be in non-compliance. But those motivated by sociality or moral values, which engender compliance, tend to resent threatened sanctions, and reduce their level of willingness to comply. Consequently, organisations need to apply different mixtures of sanctions and appeals to social responsibility to different obligatees.

However, the literature suffers from a significant gap: it offers no specific theory of what motivates *active voluntary* compliance. Since this type of compliance constitutes co-production as defined in this book, and since obligatees are one type of client, this gap matches those found in the research concerning co-production and client service, discussed in the previous chapters. All three literatures neglect the client as co-producer. This is the vacuum which this book attempts to fill.

4

Theoretical Constructs and Methodology

Introduction

The reviews in the previous three chapters of the literatures of co-production, public sector clients, and legal compliance have revealed the gap they share: a neglect of client co-production. This book is an attempt to close that gap, through analysis and comparison of three case studies of client co-production in three countries. Its purpose is not to test existing theories but rather to construct new ones concerning a hitherto insufficiently recognised phenomenon. This chapter begins with an outline of the theoretical constructs drawn from the relevant literature. It then considers the rationale for the case method and for the selection of the cases to be examined in Chapters 5–7, as well as the methodology employed in analysing them.

Theoretical constructs

The theoretical constructs on which the study is focused emerged in the first instance from a review of the research on co-production and on public clients, as described in Chapters 1 and 2. In the course of this review, it was found that aspects of the literature of legal compliance and regulation also had to be explored, as Chapter 3 reports. This review has found that the bodies of research on co-production, public sector clients, and legal compliance make use of various concepts – concerning circumstances and motivations – which might be adapted and deployed in constructing theories. Although these concepts were fashioned for purposes different from those of the present analysis, they are germane to it because they are from domains adjacent to that of client co-production. For each of the two questions considered in this

book, certain concepts recur across the different literatures, and therefore have informed the detailed questions addressed in the case studies. They are considered in turn below.

Circumstances for utilising co-production

On the question of the circumstances in which it might be appropriate for a government organisation to utilise client co-production – that is, in which the organisation's 'performance', however conceived, might be enhanced – the legal compliance and regulation research has little to say. But the literatures of both co-production and services marketing focus on similar notions relevant to this issue. One is *interdependency* between the organisation and the co-producer, namely, the situation where it is not possible to co-produce without some contribution of time or effort by the actor external to organisation, such as the citizen or the client. The other notions refer to the situation where organisational production and external co-production are substitutes for each other rather than interdependent. First, public choice theorists of co-production focus on the relative *costs* of the two alternative ways of producing. At their most crudely economic, they compare the wages of organisational staff with the costs of utilising citizen-volunteers, and theorise that organisations prefer to use co-production when the former exceeds the latter. Second, some services marketing scholars have pointed to the issue of the relative *competence* of clients compared to organisational staff. Where clients are more easily able to perform an activity, it is preferable to utilise co-production.

In analysing each of the cases, therefore, I have sought first to determine whether the work of the government organisation is interdependent with that of the client. Where it is not, I have investigated the relative costs of employing organisational staff or utilising client co-production to perform the activity, and their respective competence to do so.

Why clients co-produce

On the question of why clients co-produce, several concepts consistently appear in all three of the bodies of literature reviewed. For the purposes of this analysis, a distinction can be drawn between factors affecting clients' *willingness* to co-produce and factors affecting their *ability* to do so.

On the issue of what might motivate clients' willingness to co-produce, and in particular what instruments organisations might deploy to enhance that willingness, the different fields of research substantially overlap. Five types of motivators emerge from the analysis, nearly all

considered in at least two of the fields. They are identified and referred to in this book as follows:

- *Sanctions* are organisational actions, such as punishments, which have negative consequences for clients in either material or non-material terms.
- *Material rewards* are benefits the organisation offers to clients of a financial or tangible kind.
- *Intrinsic rewards* are organisational actions or behaviours which enhance the sense of satisfaction the client gains from feeling competent and self-determining, or from enjoyment of the experience of an activity. They differ from solidary incentives or normative appeals (see below) in that they resonate with *individual* fulfilment.
- *Solidary incentives* are organisational actions or behaviours which enable clients to associate with and receive the esteem of others, such as socialising, conviviality, group membership, or status.
- *Normative appeals* are explicit communications from the organisation, or implicit meanings conveyed by organisational actions or behaviours, which signal identification with or support for valued social and moral ideals or principles.

It is important to note that these *motivators* are instruments which the organisation can deploy. They are not the same as the *motivations* of clients, which are the drives, needs, or wants with which the motivators resonate. Client motivations are

- *Material self-interest*: the desire for tangible benefit for oneself.
- *Intrinsic motivations*: a person's need 'to feel competent and self-determining' (Deci 1975, 61) or to be stimulated or engaged in what he or she does.
- *Sociality*: a person's needs for affiliation with social groups, a sense of belonging, or the positive regard of others.
- *Expressive values*: people's beliefs about what is normatively right or about what principles should guide our society, which may differ from their views of what is in their own self-interest.

This distinction is important because a given motivator can resonate with more than one motivation. For example, sanctions can affect people's material self-interest – by imposing negative consequences on them – and their sociality – by causing them to feel shame in the context of their social group.

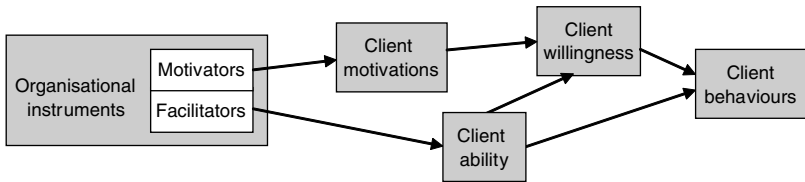


Figure 4.1 Key constructs concerning why clients co-produce

On the issue of what might enhance clients' ability to co-produce, two types of *facilitators* which organisations might deploy are discernible, primarily in the literature on services marketing. One is to reduce the difficulty of the co-production task, which we will call *simplification*. The other is to enhance the client's own capacities to perform it, for example, by providing information, advice, or training, which we will call *assistance*.

Thus, by the application of organisational instruments (motivators and facilitators), government agencies can seek to increase either the willingness or the ability of clients to co-produce. The result should be an observable increase in actual co-productive *behaviours*, manifested as increased quantity and/or quality of co-production. Figure 4.1 sets out the key constructs and their notional relationships with each other.

These constructs are not hypotheses to be tested. They are rather what Layder (1993, 129) calls 'sensitizing' or 'background' concepts: 'Such concepts provide provisional pointers to relevancies in the data without imposing a "closed net" on the research as a whole.' The cases are therefore directed not at establishing the validity of these constructs but rather at exploring their antecedents, mechanics, and effects. They are preliminary in nature and subject to modification or reframing as the case study research proceeds.

The case method

This book is an attempt to build theory from investigation and comparative analysis of three cases across three countries. The case method was employed here because it is useful for examining complex multifaceted phenomena like client co-production of public services, which by its very nature entails intricate processes and interactive relationships, and *prima facie* seems to be driven by complex mixtures of motives (Glaser and Strauss 1967; Miles and Huberman 1984; Yin 1984; Eisenhardt 1989; Ragin and Becker 1992; Layder 1993). Because it does not view the data through the prism of a predetermined hypothesis, and instead

tries to give them more room to speak for themselves, case research can uncover previously unrevealed connections between the multiple facets (Numagami 1998). Such intricate exploration is generally not possible with the large samples which hypothesis-testing research usually requires, because it would be prohibitively expensive in research time and resources.

The case method is especially applicable in the present study, because it is 'particularly well-suited to new research areas' or 'in early stages of research on a topic', 'when little is known about a phenomenon' (Eisenhardt 1989, 548–9; see also Glaser and Strauss 1967). When a research field has not yet been explored, there are no existing theories to test, and hypotheses are likely to be speculative. As the literature review in the previous three chapters has demonstrated, *client* co-production of public services is not only an unexplored phenomenon, but also a hitherto almost entirely unspecified one. It is not yet clear what all the elements of this phenomenon are, much less which ones cause which. It therefore makes sense to ground theories of client co-production in an in-depth consideration of some actual examples of it in operation.

However, the case method is also subject to some potential limitations or problems, although each of them can be mitigated. One is that in seeking to comprehend complex situations, the case method can lead to overly complex theory, which is at odds with the need for parsimony in theory (Eisenhardt 1989, 547). In constructing theories in this study, I have tried to avoid undue complexity, and reduce the emergent model to a manageable set of constructs. A related problem is that theory based on specific cases may be narrow and idiosyncratic, reflecting the situations on which it is based. It is important, therefore, that cases represent significant or comparable slices of reality, as the present ones clearly do (see below).

The other problems all constitute one form or another of potential bias or selectivity. This can occur in the selection of cases for study, in the aspects of each case which are highlighted in the narrative description phase of the 'within-case' research, and in the process of 'fitting the facts' to a theory in the 'cross-case' phase (Eisenhardt 1989; Lieberman 1992; Vaughan 1992). There is also the problem, in a multifaceted situation, of distinguishing the causal effects of the variables considered from those of other factors (Becker 1992). The measures adopted to address these problems are discussed in the relevant sections below.

The cases

This book examines three types of service – postal services, programs for the long-term unemployed, and taxation – across three countries: America, Britain, and Australia. In a sense, then, it considers nine case studies – three comparisons of three. They have been chosen on the basis of several criteria. Most obviously, they represent situations where client co-production of a public service was present. More specifically, in each case the organisation sought to move from a situation where there was no client co-production to one where it was present, or from one of less client co-production to more of it. Thus, each case effectively offers a ‘before and after’ situation. In effect, each provides a control and a variable observation, for comparative purposes.

The second criterion was that there be one case for each type of client delineated in the typology in Chapter 2, to ensure a coverage of all three client relationships. Thus, Australia Post clients are primarily paying customers, the long-term unemployed are beneficiaries, and taxpayers are obligatees. This constituted what Glaser and Strauss (1967) describe as ‘theoretical sampling’, in which cases are chosen to fill relevant categories or act as polar types, rather than statistical sampling. To the extent that it is not random, theoretical sampling can be seen as biased. But the selection is impartial in the sense that *all* the relevant categories are filled, not just some of them. The purpose is to extend emergent theory, not to test existing theory (Eisenhardt 1989).

The third criterion was that the cases constitute significant slices of social reality, to avoid giving rise to idiosyncratic theory. In fact, all the cases are instances of some of the largest organisations in our society. Two of them – postal services and tax administration – deal with activities which almost everyone encounters periodically. The third – the programs for long-term unemployed people – affect large numbers of people directly, and many more people indirectly.

These three criteria concerned the desirability of the chosen cases. The remaining criterion concerned the availability of data. Most of the services in each country had been the subject of extensive narrative history. Where they had not, it was possible to arrange interviews with top officials, or access to archival records, to fill in the historical picture insofar as it related to this study. All had been the subject of extensive empirical research.

This also affected the choice of countries. The three countries were selected because data was available for the three services across all of

them. It was also fortuitous that they were roughly comparable in their levels of economic development, in having functioning democratic political systems, and in having relatively similar institutional arrangements. In short, it is possible for a reader in any one of them to recognise the contextual circumstances in the others.

Methodology and data sources

The analysis of the case studies was on three levels. The first, which will be called the ‘within service/within country’ phase, considered the story of each service within each country (e.g., each postal service). It involved a narrative of the events that occurred in each service in the transition from before client co-production was introduced or expanded to afterwards. This narrative was framed with the key research questions in mind, while remaining as true as possible to actual events in all their messy reality. Put another way, the story was described with little explanation, but was set out so that it was possible to identify points of comparison with the cases in other countries.

The primary data sources for this phase were archival resources from each of the government organisations in question, as well as interviews with senior officials in most of those organisations, supplemented with some personal correspondence with them. The archival sources were accessed either in libraries, via the Internet, or through specific requests to the agencies concerned – almost all of which responded helpfully. The interviews were conducted with key officials in each of the three services in Australia: Australia Post, the national government departments responsible for unemployment benefits and employment programs⁹, and the Australian Taxation Office. In the case of tax administration, interviews were also conducted with key officials in the American and British taxation authorities: the Internal Revenue Service in the United States and the Inland Revenue (later Her Majesty’s Revenue and Customs) in the United Kingdom. Although interviews were not conducted in the American and British postal services and employment program providers, extensive archival material was available about each of them. Where interviews were conducted, they were used as *historical sources concerning what happened* rather than as data samples. All but three of them were recorded and transcribed, and extensive notes taken of the remainder. All were done on the basis of anonymity. No clients were interviewed for the study, for reasons explained below.

The second level, the ‘within service/across-country’ phase, began the consideration of each of the two key research questions – when is

client co-production desirable, and how is it elicited? – by comparing each service across the three countries (e.g., the postal service across America, Britain, and Australia). This phase relied on three types of data, varying according to the research question.

In respect of the question of when it is useful for government organisations to utilise client co-production, the archival materials and interview data embedded in the cases were the primary sources. The method used was to infer patterns from the similarities and differences among the three countries within the service in question. Thus, by considering what each service did and as far as possible why it says it did them, some possible answers to the key question were inferred.

This was also part of the approach to the second question of how client co-production may be elicited, but further sources were also considered. This was because consideration of only the *organisations'* reasons for deploying particular means of eliciting co-production left out another important set of motivations: those of the clients themselves. It was not possible for me to conduct meaningful research with the clients themselves, for the simple reason that to do so would have required interviews or surveys with a statistically valid sample for each of the nine agencies in question, across three countries. This was beyond my present research resources. Consequently, the study is one-sided in that it primarily represents organisational managers' perceptions of what motivates clients. However, this deficiency has been mitigated somewhat by the fact that there is an abundance of scholarly empirical research on the factors motivating clients in various aspects of the three types of service across the world. This research includes an extensive range of surveys, structured interviews, experimental laboratory research, and some participant observation. In respect of employment programs and tax administration in particular, the hopes, fears, needs, wants, and circumstances of clients have been subject to a massive volume of empirical research in all three countries, to a degree where various meta-studies have drawn out convergences among them. The present study has exhaustively reviewed this empirical literature. Thus, it has been possible to test organisational managers' perceptions of clients' motivations against research reporting motivations indicated by clients themselves.

The third level ('across service/across country') is addressed in Chapter 8, and seeks to generalise across all three service types. It involves comparing and contrasting the cases to elucidate patterns across the three services, and considering possible explanations for these patterns. As Eisenhardt (1989, 540) points out, this phase is notoriously

subject to researchers' tendencies to bias and selectivity. The best way to counteract these tendencies is to look at the data in several divergent ways. Four methods were employed, in an iterative process.

The primary one was to compare the cases along all of the dimensions suggested by the variables identified in the consideration of theoretical constructs, and look for either common factors or meaningful differences. Chapter 8 explains the initial findings of this comparison. It was found that one factor – the type of client – seemed to correlate with only some of the variation among cases.

The cases were then subject to the second method: to list all their similarities and differences in detail. From this it emerged that another factor – the type of value consumed – was of explanatory significance. However, this factor did not seem to explain the difference between the postal and employment program cases, in both of which the client consumed private value. A similar detailed comparison was undertaken between these two cases, which led to identification of a further factor: the specificity of the co-production task. From the identification of these two factors, a matrix typology of contingencies for different types of motivators was posited.

Finally, the theory was 'tested' against the data for the within-case research, especially the qualitative material. The interviews and narratives were reviewed to see if they supported or in any respect disproved the theory. In effect, this amounted to the testing of (newly framed) hypotheses on a small scale. With only minor qualifications discussed in Chapter 8, the theory tended to be consistent with the qualitative data from the within-case research, as well as with the quantitative empirical research in the literature.

Thus, the case method has been deployed to generate what Glaser and Strauss (1967) called 'grounded theory': propositions for further testing which are crystallised from the disordered reality at large. Such theory is open to challenge on various grounds – that is why it needs further testing – but it helps bring some conceptual order to messy, inchoate situations. The following three chapters address those situations.

5

Postal Service Customers as Co-producers

Introduction

The act of writing in the postcode when we are addressing an envelope is hardly a major event in our lives. But each time we do it, we play a small but important part in the performance of the postal service: we are co-producing the sorting of our mail and hence expediting its delivery. The efforts of postal organisations since the 1960s to reduce costs and improve service quality through the introduction of new technology have been reliant, to a significant degree, on how their customers address their letters, especially the postcodes.¹⁰ Consequently, these organisations have sought to influence customers to address their mail in particular ways.

This chapter examines how the postal services of the United Kingdom, the United States, and Australia have attempted, with varying degrees of success, to harness co-production by the paying customers of their letter services.¹¹ After first explaining the pressures to improve efficiency and what this means for the generic production process of a mail service, it sketches the history of postcodes, mechanisation and automation in the postal organisations of the three countries. It then considers what these cases tell us about when it might be valuable for a government organisation to utilise client co-production, and how it might elicit such co-production.

Pressures to improve mail efficiency

Historically, postal services have been seen as a governmental function. Initially, Charles I established the Royal Mail in 1635 as a revenue-raising measure rather than a public service, a rationale which continued when

the British Parliament established the postal system for its American colonies in 1711. Mail services were unreliable, expensive, and mired in a complex system of postage rates, based on distance and numbers of pages conveyed, and often paid by recipients. In 1837, the British postal reformer Rowland Hill had pointed out the high transactions costs of differential rates, and he called for the introduction of a uniform rate for standard letters, prepaid in the form of stamps. This inspired the introduction of the Penny Post in 1840, a model since emulated by postal systems around the world (Crew and Kleindorfer 1991).

For most of the twentieth century, postal services have been statutory monopolies providing standard letter services at uniform rates. Part of the rationale for uniform rates rests on the argument about the transaction costs of differential rates, but they also affirm the principle of inter-regional equity. Governments of all political persuasions have subscribed to the principle that those whose mail has a lower unit cost, such as residents of large urban centres, should cross-subsidise those where it is more costly, such as rural people. The need for uniform rates also underpins the monopoly status of postal services, since cross-subsidisation would be difficult if competitors could take the most profitable segments.

Closely related to this is that postal services embody aspects of natural monopoly, in their networks of postal collection points, retail outlets, and mail sorting centres (Panzar 1991). The characteristics of the service are such that having a single supplier is the most efficient industry structure. It especially applies to network-based services. The traditional policy consensus is that natural monopoly requires some government intervention to curb adverse use of market power. Some argue that regulation may be inefficient, and that it may be preferable for government to own and operate the service in question (Stokey and Zeckhauser 1974).

However, while there are public benefits in having postal monopolies with uniform rates, there are also disadvantages. In recent decades, government-run postal services in all three countries – and indeed around the world – have been under pressure from both their competitors and customers to improve their efficiency. First, they have been subject to increasing competition from private mail carriers, and from other forms of communication such as facsimiles, email, and electronic funds transfer. This has heightened the need for postal organisations both to contain prices and to maintain service quality, in terms of accuracy and speed of delivery. Because it has eaten into the volume of mail carried by these organisations, which have fairly

high fixed costs, private competition has also increased unit costs, or at least impeded their reduction – thereby exacerbating the pricing problem (Corby 1979, 47–48; Pryke 1981, 159). Second, customers, especially large-volume business mailers, have reacted to rising postage rates and tardier delivery performance, both in their dealings with postal organisations as customers, and in lobbying through the political process, with the result that governments in all three countries have initiated official reviews (Carter 1977a; Bradley 1982; Tierney 1988, 19–24). The clear expectation is for cheaper services without diminishing timeliness and accuracy of delivery.

These pressures have inexorably led postal services to search for ways of reducing the labour intensity of postal services, which typically exceeded 80% of costs (Corby 1979, 233; Tierney 1988, 76), through reorganisation and in particular through the introduction of labour-saving technology. The goal has been to eliminate or reduce the work done by postal staff in as many steps in the processing of mail as possible and replace it with work done by machines. It is necessary, therefore, to understand the traditional mail production process. Typically, it had several steps (Carter 1978, 100; Corby 1979, 197; Mathews 1991, 7; Crew and Kleindorfer 1992, 4):

1. *Collection* of mailbags and transporting them to sorting centres.
2. *Culling* or segregating mail into letters, packets, and other items.
3. *Facing* letters up in the same direction, with stamps in the top right-hand corners.
4. *Cancelling* the stamps with postmarks.
5. *Outward sorting* of mail into separate destination streams. This often entailed several sub-processes, including presorting into local versus other mail, the former going direct to carriers for sequencing and delivery; primary sorting into major streams, including intra-country regions and overseas; and secondary sorting of domestic mail into destination post offices or mail exchanges.
6. *Transporting* mail in bags or containers to post offices or transport terminals.
7. *Inward sorting* of mail into ‘rounds’ at destination post offices and sequencing within rounds by mail carriers.
8. *Delivery* by carriers.

The particular concern of this analysis is *sorting*, both ‘outward’ and ‘inward’. Since the 1960s, considerable progress has been made in improving the performance of the other steps. Machines have taken

over the culling, facing, and cancelling processes, while applied logistics and contracting have reduced the costs of transport from collection points, between mail handling centres and delivery addresses. But sorting posed a particular problem. The reason is that each address is different, and therefore had to be individually 'read' and comprehended by the sorter to be treated in the specific way required (e.g., to be routed to south Luton), at each stage of sorting – outward (primary and secondary) and inward. During the traditional process, this had to be done on an average of three times for each letter.

One important way of expediting this process is to 'encode' the addresses, that is, to print the destinations in coded form (such as phosphor dots or barcodes) on envelopes before sorting begins, so that they can be 'read' by sorting machines. Consequently, all of the technological developments since the 1960s have entailed an extra step in the sorting process, in which letters are encoded prior to sorting. In the initial phase of technological development, human operators did this encoding, with machines handling the rest of the sorting process. In the second phase, optical character recognition (OCR) machines did the encoding. More recently, large business mailers have been placing barcodes on their mail before dispatching them to the postal service.

In each of these phases, the ability of the postal organisations' staff or machines to sort mail has been affected by how the customers address envelopes. In the first phase, sorting by the organisation was *enhanced* by customers entering correct postcodes, but not dependent on it. In subsequent phases, the performance of the postal staff or machines was largely *dependent* on how the customers addressed their mail, in varying ways. Thus, improving the performance of the sorting process necessarily entailed additional or enhanced work by postal customers.

The UK post office and postcodes

The first postcodes were introduced by Rowland Hill in 1857, when he divided London into its famous postal districts (E, NW, WC, etc.). Other large British cities, such as Liverpool, Manchester, and Sheffield, followed suit between 1864 and 1912. In 1917, London acquired postcode sub-districts (e.g., WC3), which Glasgow emulated in 1923. But these codes were primarily to break down sorting in large centres into manageable volumes. It was not until the 1950s that investigations started into the mechanisation of mail sorting, leading to the recognition of a need for a more sophisticated system of coding.

The first modern postcodes were tested in Norwich in 1959, but it faced initial reluctance from mailers. Further trials in selected areas in the early 1960s were accompanied by much publicity, but there was still substantial customer resistance, with only half of mail-senders using them. The postcodes were further revised and formally introduced in 1966, starting at Croydon and progressively being applied to the rest of Britain over the following nine years.

The postcodes were alphanumeric, that is, they contained a combination of letters and numbers. Take the following example: EH6 5FN. The first two letters (EH) represent a Postcode Area (Edinburgh), while the following numeral (6) is a District within that Area. These three digits comprise what the post office calls the Outward Code – that is, the indicator which guides outward sorting, by denoting which post office or sorting centre the letter should be sent to, prior to inward sorting. The other three digits (after the space) comprise the Inward Code. Within it, the first number (5) signifies a Postcode Sector within the District, while the remaining two letters (FN) represent a small group of addresses (on average, approximately 16) within that sector. The Inward Code guides the sorting process in the destination post office (Raper et al. 1992).

Thus the British postcodes were designed to be used both for outward and inward sorting. This was dictated by the particular plans which postal management had for mechanising the system. The basic idea was that each letter would be code-printed by a human at the start of the sorting process, and the code ‘read’ by machines in subsequent stages of sorting. This involved using two types of machines. At the beginning of the outward sort, letters would pass through a coding (or ‘letter indexing’) desk, at which sat a human operator. As each letter appeared behind a perspex screen on the desk, the operator would read its postcode and enter it on a keyboard, whereupon the machine would print the code on the envelope in the form of a series of phosphor dots. Once coded in this way, the letter could then be ‘read’ by mechanical letter sorting machines (LSMs) for the rest of the sorting process, both outward and inward. Thus instead of letters having to be ‘read’ several times by humans throughout the sorting process, they only had to be read once. This coding was easier for operators to perform when letters had clear and correct postcodes on them.

This had the potential both to reduce labour requirements and to speed up sorting. Some of the improvement came from the new coding process, which was faster than traditional sorting, but the greatest impact derived from the mechanisation of the subsequent sorting. The

new machines could handle 16,000 letters per hour. This meant that letters could be delivered considerably faster, and that the same work could be done with a reduced number of staff.

The first experiment with the new technology was again at Norwich, in 1966. The Post Office planned to apply it across Britain by concentrating sorting from 1200 manual sorting offices into about 70 mechanised letter offices (MLOs), starting with Croydon in 1968 and rolling it out to the others by 1976. However, a dispute with the postal unions prompted a suspension of the program between 1972 and 1975, during which time a joint union-management review was undertaken. As a result, the number of MLOs was increased to 80, and they were phased in over a longer period, up to 1982 (PORC 1977a, 321).

However, the mechanisation program seemed to have limited success. It led to only a 3% reduction in staff (6000 out of 200,000), and indeed productivity actually declined during the 1970s (Corby 1979, 41). Although this was due to a number of factors, including industrial relations pressures and declining mail volumes, it was also true that the machines in question had an inherent limitation: they required human eyes and brains to read and code letters at the start of the sorting process. As long as this was the case, there was a minimum workforce level below which staff reductions, and hence productivity improvements, could not be pursued.

Not surprisingly, therefore, postal management had begun in the mid-1970s to investigate alternative technologies which dispensed with the need for human 'readers': Optical Character Recognition (OCR) machines. If the last line of an address contained a typewritten postcode, an OCR machine at that time could 'read' it and then print a phosphor dot code on the envelope, whereupon the letter could be processed automatically by letter sorting machines. Where the address was handwritten, or otherwise unable to be 'read', the letter would be automatically directed to a coding desk operated by a human.

Initial orders were placed for OCR machines in 1980, and the first one was trialled at the Mt Pleasant sorting office in London in 1982. However, because of union resistance to their use, eventually overcome by management applying legal sanctions, it was not until 1986 that the first batch of 17 machines was installed, with another 29 beginning operation in 1988 and 1989, making 47 in all (Mathews 1991, 34).

These machines could process up to 30,000 letters per hour – much more than either manual sorters or human coders. However, they were dependent to a greater degree than human coders were on letters having accurate and legible postcodes on them. It was therefore critical

that the Post Office persuade letter-senders to enter postcodes properly when addressing envelopes. This had been a continuing challenge for the postal service. Throughout the 1970s, it had encountered considerable reluctance to use postcodes on the part of its customers, and its local marketing of them was poor (Corby 1979, 209). Only 45% of all letters in 1977 had correct postcodes (PORC 1977b, 79). A sustained promotional campaign in the 1980s lifted the overall usage rate to just over 70% in 1990, although only 60% of individually stamped mail had postcodes.

In the early 1990s, the Post Office began to make use of barcoding technology. It introduced a new generation of OCR machines which printed barcodes rather than phosphor dots on letters and began to encourage bulk mailers to pre-barcode their letters. As the decade continued, this technology was networked and integrated, with remote video coding introduced in 1995, and Integrated Mail Processors, which combined all the processes – culling, facing, coding, sorting, and cancelling – installed from 1997.

By the early 2000s, technology had evolved to the point where even handwritten addresses could be read by machines. Introduced from 2003, Hand-Written Address Interpretation (HWAI) technology was able to decipher a significant proportion of hand-penned addresses instantly, then route remaining letters to another point for slightly extended reading, which picked up the majority of addresses. Any subsequently unread addresses were then handled manually.

In summary, the requirement prior to the 1960s for human operators to read the address on each letter three or more times during the sorting process was reduced during three stages of technological development between the 1960s and 2005. In the first stage, utilising letter coding and LSMs, human operators had to read addresses only once, at the outset of sorting. Once a letter was phosphor-coded, machines could easily handle it through the whole of the sorting process, both outward and inward. Operators' ability to apply letter coding could have been enhanced if customers had written postcodes reliably on letters, but this only happened to a limited extent. The second stage dispensed altogether with the need for human operators to read addresses containing typewritten postcodes, while retaining the desk coding of other letters. But it also depended on mail-senders typing correct postcodes. As will be discussed below, this posed its own problems. This dependency was reduced but not eliminated in the early 2000s with the introduction of HWAI technology. However, there remained a proportion of mail that was unreadable electronically.

The US Postal Service and ZIP Codes

The mechanisation and automation of mail sorting in the US Postal Service slightly preceded that in the United Kingdom. Technologically, it was fairly similar, with a first stage of human letter coding allied with LSMs, and a second stage focusing on OCRs. But in terms of postcode formats, it was different. In the first stage, the postcode was confined to an equivalent of the UK's Outward Code. The Inward Code was not added until the second stage. This had important implications for customer co-production.

US Postmaster-General Arthur Summerfield began planning for the mechanisation of postal services in the 1950s, with the establishment of a Department of Research and Engineering. In 1958, he obtained an \$88 million appropriation to develop a letter sorting machine (LSM), and the Burroughs Corporation developed a multi-operator LSM between 1959 and 1961 (Baxter 1994, 70–1). The first LSMs were introduced from the early 1960s, but their adoption was slow. By 1968, only 145 of them were in use across the country, and it was not until the 1970s that sufficient funding became available to install them in all locations (Tierney 1988, 79). Each machine was staffed by several operators, and it combined both coding and letter-sorting functions. An operator would read each address and key in its code, which would thereby direct the machine to convey the letter to a particular outward destination bin. This technology was therefore very similar to that deployed in Britain a few years later.

However, while the technology was similar, the postcodes were not. The system of ZIP Codes,¹² introduced in 1962, differed from British postcodes in three respects: they had five digits, they were completely numeric, and most importantly, they could be used only for outward sorting. For example, 02138 signifies a post office in Cambridge, Massachusetts, from which further inward sorting would have to be done without the guidance of the code. There were about 40,000 ZIP Codes in total.

As in Britain, the productivity gains from mechanisation were constrained by the need for human operators to code the letters. They needed 'considerable memory knowledge', and could only process a maximum of 30.83 pieces per minute, whereas the machine could subsequently sort at twice that speed. Even at slower speeds, operator error rates ranged from 9 to 12%, five times the error rate of manual sorting (Baxter 1994, 136–7). Indeed, in a submission to the Postal Service Board of Governors in 1980 calling for expansion of the automation

program which was by then under way, postal management cited the high cost of 'human involvement' as the main constraint of the earlier LSMs (Baxter 1994, 136).¹³

Another limitation of the first stage technology was that it could only handle outward sorting. Postal management wanted to automate the whole of the sorting process, including *inward* sorting. This required the attachment of inward codes to the ZIP Codes. In June 1980, the Postal Service gave official notice in the *Federal Register* that it would introduce ZIP+4 Codes in 1981 (Tierney 1988, 80). For example, an address in Omaha, Nebraska would have a ZIP+4 Code of 68142-5237, the digits before the hyphen being the original 5-digit ZIP Code and the ones after it being the inward code, enabling sorting down to a specific mail carrier.

The ZIP+4 Code was intended to facilitate the use of OCR machines, which postal management had begun to look at from the mid-1960s. Although an experimental OCR was installed in the Detroit post office in 1965, progress in developing a cost-effective machine was slow, and it was not until 1976 that a firm decision to utilise them was made, manifested by the establishment of a management task force to push the new automation program forward (Baxter 1994, 149–50). Its preferred approach was to use 'single-line' OCRs, that is, machines which could read the last line of a typewritten address and print a barcode on the letter. Once the letter was barcoded, it could be automatically sorted in all subsequent outward and inward processes. However, because they read only the last line of the address, single-line OCRs were dependent on mailers entering the correct ZIP+4 Codes. But this was an unlikely prospect. Customers had already exhibited considerable reluctance to use the 5-digit codes (Baxter 1994, 71), and the public reaction to the 9-digit proposal was vociferous. It was ridiculed in the media and in Congressional hearings and criticised by large mail users and postal unions. In the face of this outcry, Congress decided to suspend introduction of the ZIP+4 until October 1983, pending a Government Accounting Office (GAO) review (Tierney 1988, 83).

In January 1983, the GAO gave the new proposals the go-ahead. However, as a result of the delay, the Postal Service had lost momentum in its efforts to encourage business users to adopt the ZIP+4 Code. In its original proposal in 1980, it had projected that ZIP+4 usage would reach 22% of standard letters by 1982 and 90% by 1989. But in 1984, its first year of operation after the moratorium, only 2.8% carried the ZIP+4 Codes (Tierney 1988, 83). This continued to be a chronic problem: by 1987, ZIP+4 usage was still only 15% (Baxter 1994, 156).

Against this backdrop, postal management found itself at loggerheads with its Board of Governors about what kind of technology to use. In June 1984, the US Office of Technology Assessment issued a report criticising the plan to install single-line OCRs and called instead for introduction of *multi-line* OCRs. A multi-line OCR can read an entire address, search its internal computer memory to find the ZIP+4 Code for that address, and print a barcode on the envelope (Tierney 1988, 84). Provided the address is typed legibly, this would do away with the need for the customer to enter the ZIP+4 Code.

After some argument, the Board of Governors instructed postal management to switch purchasing to multi-line OCRs, and plans were also made to convert the existing single-line machines to multi-line readers. These plans had to be put on hold for two years from May 1986, when it was discovered that one of the Board members had been taking bribes from a multi-line machine manufacturer and pressuring postal management to acquire its product.¹⁴ But from early 1988, they were resumed. In the seven years to 1995, 700 multi-line OCRs were installed, together with 5000 barcode sorters – machines that could sort letters by ‘reading’ the codes printed by the OCRs. Thus, all typed addresses could be read by machines, while addresses which were not machine-readable were still handled by human letter coding on some remaining LSMs.

Around this time, the postal service also began to broaden the application of barcoding. From the late 1980s, mailers began to pre-barcode their own mail, encouraged by marketing incentives offered by the postal service. In 1990–91, it sought to further rationalise human letter coding, with the installation of 42 remote barcoding systems. These machines presented letters one by one to a video camera, for reading and coding by human operators. But they differed from LSMs in that the human operators could be anywhere in the United States – for example, in a low-wage location in the southwest.

Thus the new arrangements both eliminated labour from the sorting process and reduced the cost of that which remained. Their pivotal feature was the barcode, as the Deputy Postmaster-General put it in 1988:

Our strategy is based on offering customers a number of options – options to pre-barcode their mail, put ZIP+4 Codes on their mail, presort their mail, or do nothing at all. How they respond depends on what makes the most economic sense for them. But regardless of what they do, our objective is to have a nine-digit code bar code on every piece of mail. If they don’t put it on, we will. (cited in Tierney 1988, 90)

But as in the United Kingdom, these developments were subsequently overtaken by technological development. From 1996, the service began to field test HWAI technology, which meant that for at least a proportion of mail, it didn't matter if letter-senders failed to type their addresses. By 2005, HWAI was being deployed in over 250 Remote Computer Reader systems across the United States.

In summary, the postal service's initial efforts to mechanise and automate mail sorting depended on customers entering ZIP Codes (or ZIP+4 Codes). When it became clear that customers were not going to do this, the postal service changed the technology so that it was less dependent on mailers using the ZIP Codes. Instead, its minimum requirement was that customers type their addresses, so that multi-line OCRs could read them. In addition, it transferred some of the electronic coding work to mailers. Only a small residual proportion of letters would have to be read and coded by human operators. Either customers or machines did the rest. Subsequently, HWAI technology enabled machines to do even more of the customers' work.

Australia Post and postcode squares

Australia Post¹⁵ was among the first postal services in the world to mechanise its mail sorting. It began using a fully integrated letter coding and sorting system at its new Redfern plant in Sydney in 1966. The technology was similar to that used in the first stage of mechanisation by the British and American systems, entailing human-operated letter coding desks feeding into automatic letter sorting machines. Similar plants were planned, and some constructed, in other states in the next ten years. However, it was already clear by the mid-1970s that large, centralised, and integrated facilities such as Redfern were both vulnerable to industrial unrest and likely to ferment it. Thereafter, a larger number of smaller, decentralised plants were built to replace Redfern and its interstate counterparts.

These plants relied on staff to code the letters. Indeed, it was not until 1967, the year after Redfern opened, that postcodes were introduced in Australia. The postcodes are different in form from those of Britain or the United States, in that they have only four-digits, all numeric. The first digit denotes the state (e.g., 2 = NSW, 3 = Victoria, etc), and the other three the destination postcode district. For example, 3053 signifies the Victorian postcode district of Carlton, an inner-Melbourne suburb. Thus the postcode constitutes an outward code only. Like America's original ZIP Code, it is not designed to guide inward sorting. The restriction

to four digits reflected the smaller size of Australia's population, and hence the smaller number of destinations, compared to America. Other small countries such as Austria or Portugal also confine themselves to four-digit codes (Raper et al. 1992, 55–8). These postcodes quickly gained widespread acceptance among customers. After only one year, they were being used on 75% of all mail. However, it was not until 1990, long after its international counterparts had done so, that Australia Post implemented the next stage of automation by introducing OCRs.

In considering OCR technology during the 1980s, Australia Post faced a difficult problem: a high proportion of Australian letters have hand-written addresses on them. In fact, Australia has one of the highest proportions of hand-addressed mail in the world – about 40%, compared with 20% of US mail. The problem was that for an OCR machine to work, the addresses on envelopes must be in a form which it can read. This is fairly straightforward for typewritten addresses, which have a 'read rate' of close to 90%. However, it is quite problematic for hand-written addresses. An OCR machine is much more readily able to read the postcode in a handwritten address when it is entered in a particular way, namely:

1. that it is in a particular location on the envelope (in Australia Post terminology, it is 'constrained'); and
2. that the postcode numerals are clearly separated.

The 1990 generation of OCR machines could 'read' only 1–2% of hand-written addresses which did *not* have these conditions. However, they could 'read' approximately 75% of handwritten addresses which did have them. Thus, over 73% more hand-addressed envelopes could be automatically processed if their postcodes were properly entered. This meant that about 29% of Australia Post's standard mail (i.e., 73% of 40%) could be processed over ten times more efficiently, *provided* its customers entered the postcodes correctly on to their envelopes. In other words, a vital prerequisite to meeting customers' expectations was that customers contribute by their actions to the processing of the mail. Tapping the co-productive efforts of customers was therefore as essential to improving the productivity of standard mail operations as mobilising greater efficiency of its own staff.

Maximising the effectiveness of OCR technology has therefore required Australia Post to encourage its customers to contribute in one of two ways. The most effective way was to post letters with typewritten addresses on the envelopes. Much of Australia Post's marketing was

directed towards this, offering a variety of service advantages and discounts for bulk mail which has been machine addressed. It dovetailed with the mailing techniques of large organisations, especially business. The other way was to encourage senders of hand-addressed mail to write postcodes in machine-readable form. This turned out to be quite a complex endeavour.

The first OCR machine was not installed until 1991, with the full complement in place by 1993. But Australia Post began grappling with the need to 'constrain' postcodes on hand-addressed envelopes several years before, almost as soon as it had decided to introduce the machines. It established an OCR project team in 1984; two of its members visited Europe and America to inspect OCR facilities in several countries in 1985.

In 1985, Australia Post commissioned some market research on customer attitudes to postcodes. It showed first that the best method for encouraging customers to write postcodes correctly was to print four oblong boxes on the bottom right-hand corner of the envelope, in which the customer could write the numerals (see Figure 5.1). Customers preferred this to alternatives, and found it easier to complete. Second, customers were concerned that envelopes with postcode guides printed on them would be more expensive than unprinted ones and would be less inclined to comply with the new system if they were. It was therefore crucial for Australia Post to ensure that envelope manufacturers did not charge more for the new envelopes. Third, customers viewed Australia Post as chronically unreliable and inefficient and consequently were sceptical of the ability of postcodes to improve the mail service (Australia Post 1985, (i)). In short, there was the probability of some resistance to the new method of addressing envelopes.

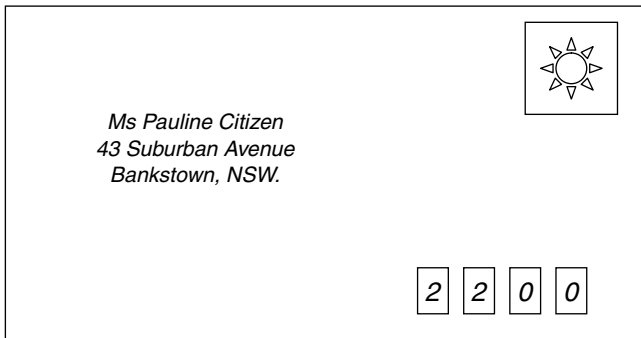


Figure 5.1 Example of postcode squares on an envelope, Australia, after 1990

It was clear to Australia Post early in the development process, therefore, that a lot of promotional work would be required to secure their acceptance of postcode squares by customers. But before doing that work, and while the engineering and operational aspects of the new system were being prepared, the project team initiated discussions with the envelope manufacturers. The objective was to get them to print the new envelopes without raising their prices. What made this complicated was that Australia Post was in no position to subsidise the printing. Envelope manufacturers had to be persuaded to do it without any financial assistance. What complicated it further was that the technical requirements of the OCR process required the boxes to be printed in ink of a particular colour – orange – which was expensive than certain others.¹⁶

In fact, discussions with the manufacturers revealed that most envelope print lines could easily have a print head attached, and at the volumes in question – with runs numbering in the millions – the marginal cost of printing was negligible. Further, if larger manufacturers began to print them at no extra charge, the smaller manufacturers would have little choice but to follow suit. After some dialogue, a *quid pro quo* was agreed upon. The manufacturers would print the postcode boxes at no extra charge, while Australia Post undertook to mount an extensive marketing campaign for the new addressing method. It is worth noting in passing that in reaching this agreement, Australia Post was tapping co-productive activity on the part of the manufacturers, precisely to facilitate co-production by its customers.

In January 1989, Australia Post awarded the contract for supply of the machines to the German company AEG. Following trials, the first OCR equipment was installed in Melbourne in December 1990 and it became operational early the next year. In the following two years, some 36 OCR machines were installed in the 21 largest mail centres around the country, the last coming on stream in 1993.

Before the first machine was installed, promotion of the postcode squares had begun. A public advertising campaign was launched in June 1990, and manufacturers began selling the new envelopes at the same time, even though the OCR equipment was not yet operational. At the same time, Australia Post distributed a booklet containing all the postcodes to every address in Australia. The response from customers was strong. Usage of postcode squares grew rapidly in the early 1990s, and by 1996 stood at about 55% of all hand-addressed standard letters. According to Australia Post in 1996, the trend growth rate was about 3% per annum. Its expectation was that the proportion would eventually 'plateau' at about 75%.

In the early 2000s, Australia Post introduced HWAI technology like its British and American counterparts (indeed from the same supplier), reducing the necessity for customers even to enter postcodes.

In summary, Australia Post's use of postcodes for automating the sorting process was both narrower and broader than that of either the British or the American postal services. It was narrower in that it focused solely on the outward sorting; the postcodes did not include an inward segment. But it was broader in that it sought to enable handwritten postcodes to be machine-readable – something which the other postal services had never attempted. Even this capacity became less important as HWAI technology was introduced.

When client co-production is useful for postal organisations

Each of the technological developments described above has entailed a reshaping and redistribution of tasks among postal staff, machines, and postal customers. The role played by customers has varied from one system to another, primarily in the way they address their mail. Whether the task performed in this role is interdependent with the work done by postal organisations internally, or a substitute for it, depends on the unit of analysis.

At the level of the sorting process as a whole, client co-production can be seen as *interdependent* with organisational production to varying degrees. In the first phase of mechanisation (letter coding and mechanised sorting), there was some interdependence, but it was relatively weak. All customers were asked to do was write postcodes legibly in addresses. To the extent they did so, the work of letter-coding staff was made less difficult; it was easier for them to recognise the correct code and enter it on the keyboard, and operator errors were reduced. But staff could still perform letter coding without customers writing postcodes. It took greater concentration and a little more time, but it was still feasible for them to do so.

In the next phase of automation, the interdependency was much stronger. In Britain and America, use of single-line OCR machines was dependent on customers typing postcodes in the last line of addresses. In the subsequent phase in the US postal system – multi-line OCR – the task required of customers was in some ways simpler, in that all they had to do was type the addresses, with or without postcodes. But although it was simpler, it was no less critical, since multi-line OCRs could not read untyped addresses. In these two countries, therefore, the sorting

process was critically dependent on how customers addressed envelopes. Furthermore, this interdependency applied to the whole of the sorting process – outward and inward.

In Australia, the client co-production was only critical to one part of the sorting process – the outward sort. OCR machines only worked if customers either typed addresses in the last line, or handwrote them in postcode squares on envelopes. But these contributions expedited the use of machines for only the outward component of sorting. For the inward component, only postal staff could do the requisite sorting.

In these cases, the ability of letter sorting machines to ‘read’ the destination codes was vitally dependent on customers addressing their mail in particular ways. It was not that postal organisations found client co-production useful. Rather it was imperative. Their own internal production processes, into which massive resources had been invested, simply could not function without it. Seen at this level, the interdependency was absolute. Where they failed to elicit client co-production, postal services found that their new technology was a white elephant.

A clear example of this was the US Postal Service’s decision to replace single-line with multi-line OCRs. It was largely prompted by the failure to persuade mailers to use ZIP+4 Codes during the mid-1980s (for reasons to be discussed below). With usage stalled at 10% in 1985, the single-line OCRs, which could only ‘read’ addresses with ZIP+4 Codes in the last line, were largely useless. By contrast, multi-line OCRs could read the addresses in the form in which most of them (about 80%) were normally presented – that is, in typed form.

However, if we focus on one step in the sorting process – the encoding of letters – client co-production could be seen as a *substitute* for organisational production. Letters which were not machine-readable were rejected by OCRs and diverted to staff on coding desks (or displayed for remote video encoding staff), who read the addresses and print (dot or bar) codes on them. Alternatively, letters could by-pass encoding by either staff or machines if customers barcoded them before mailing. Thus, letters could be rendered machine-readable either by customers or by postal staff. In this perspective, the question was which of these was preferable for the postal organisation.

The answer is quite clear: in nearly all cases, customer co-production was better *if it could be mobilised*. This was primarily because of its effect on costs. In the United Kingdom and Australian postal services, data on this factor is difficult to disentangle from other factors such as fluctuating mail volumes and union resistance to productivity savings. But the picture was clearer in the United States. According to testimony by

US Postal Service management to Congressional hearings in 1990, a 'properly prepared' letter cost 37 cents to process manually (i.e., where a human operator had to read the address at each stage of sorting). The cost fell to 16 cents with the use of letter sorting machines (i.e., where a human operator had to read and code the address only once, at the beginning of the sorting process). Most tellingly, it was only 3 cents on automated equipment (where no operator coding is required) (cited in Baxter 1994, 165). The most significant source of cost reduction was increased labour productivity. The number of pieces of mail handled per employee almost doubled between 1970 and 1990, and increased by 37% between 1980 and 1990 (Baxter 1994, 203). Productivity improvement was also cited by the British postal officials in 1977 as the primary rationale for introducing OCR equipment (Carter 1977b, 323).

This lends weight to the public choice analysis of the substitution effects of clients co-production discussed in Chapter 1, in that it suggests that postal organisations may have chosen, at this stage of technological development, to enlist customer inputs because they were cheaper than using internal labour. But such a view would be superficial, since it fails to delve into *why* customer co-production was able to reduce costs.

Take the example of customers entering postcodes. When they did this work, it was less costly because they were more readily able to do it than postal staff, *ceteris paribus*. This can be understood by distinguishing two aspects of this work. One was ascertaining the correct postcode, and the other was entering it on the envelope. It was relatively easy for customers to do the former because they were more likely to have been given the postcode by the addressee, either in previous mail or, in the case of business mailers, through a registration, enrolment, or application form. And once they had the code, it was relatively easy for them to enter it as part of the task of writing the address – especially for business mailers with computerised mailing lists. Similarly, when customers typed addresses, thereby facilitating multi-line OCRs, this was simply doing what they would have done anyway.

Thus, when customer production was a less costly substitute for organisational production of sorting, it was basically because customers are more competent at the encoding of addresses. They were more competent not because they were more intelligent or skilled, but simply because their structural position gave them an inherent advantage in performing this task.

Another potential benefit was improved service quality, manifested by faster delivery. Here the data for the United States and United Kingdom are tainted by the inadequacy of performance reporting within their

respective postal services. In the United Kingdom, there was virtually no information published until the Post Office was required to do so for the Post Office Review Committee in 1977 (Corby 1979, 50), and it was sporadic for some years after then. Even that which was available was based on measures of limited usefulness.¹⁷ In the United States, successive systems for recording on-time delivery performance have been contaminated by Postal Service changes in the definition of 'on-time' and by staff 'gaming' of the data collection process (Tierney 1988, 67–71). Despite management attempts to 'gild the lily' in these countries, the general picture was one of worsening delivery times. In the United States, while the proportion of mail delivered on time remained generally constant, the 'on-time' standards had been relaxed, and handling times had been blown out by increased complexity in the sorting process (Baxter 1994, 166–8).

By contrast, Australian postal delivery performance figures are more reliable, since they have been monitored by an independent auditor since 1992. Moreover, on-time delivery standards were actually tightened in September 1991, promising overnight delivery for mail within a capital city, two-day delivery between capital cities, and three or four days for other mail.¹⁸ Against these standards, on-time performance increased by a long-run average of about 2% from 1991, and remained largely constant around 93%, with only minor fluctuations from year to year (PSA 1989, 1991; Australia Post Annual Reports 1990–95) – a considerable improvement from before the OCR technology was introduced, if the tighter standards are taken into account. Moreover, customer survey research in the first half of the 1990s showed that customers perceived that on-time delivery had improved quite considerably after 1991 (Australia Post Annual Reports, 1993–94 and 1994–95).

In the third phase of automation – HWAI technology – the relative balance of capabilities between postal services and customers shifted. It became less important for customers to enter addresses in a specific format – whether typewritten or accurately postcoded – because the machines could read a significant proportion of handwritten addresses. However, it could not read *all* of them. Consequently, it was still dependent on customers writing addresses reasonably legibly.

In summary, it makes sense for postal services to utilise some form of customer co-production in the sorting of mail, either because it is interdependent with organisational production, or because it reduces costs considerably, and may also improve delivery speeds. But whether an organisation chooses to use client co-production is not only a function of the benefits it receives but it also must weigh these benefits

against what it costs to elicit that co-production, a question to which we now turn.

Eliciting co-production from postal customers

The extent to which postal customers co-produced by addressing their mail in a machine-sortable format, most notably by entering postcodes, varied between countries and between technological systems. In the United Kingdom, the usage of postcodes remained low for more than a decade after their introduction in 1966, and only slowly increased during the late 1970s and 1980s. It had reached 70% by 1990, but it was still only 60% for individually stamped mail. In the United States, the public in general was slow to take up 5-digit ZIP Codes and, as we have seen, very resistant to using the 9-digit ZIP+4 Codes, which only 15% of letters carried by 1987. By contrast, in Australia, postcodes were quickly accepted, for both typed and handwritten addresses. Three factors account for the variations, all of them relating to *material* benefits and costs.

Relative difficulty of the co-production task

The most significant factor was the relative difficulty of the co-production task, which is a function both of the task itself and of the clients' capacities. Co-production by customers demands increased time and effort on their part, both in ascertaining the correct postcodes for addresses, and in entering them correctly on envelopes. The easier it is for them to perform these two aspects of the task, the less it costs them in time and effort, and the more likely they are to do them.

In the United Kingdom and United States, the low rate of usage was particularly attributable to the difficulty of ascertaining the correct postcode. This was because not only the postcodes themselves were difficult to remember, but also because customers could not readily access any directories when they could not remember them. Both these problems were brought about by the form of the postcodes, which stemmed in turn from the fact that they were designed to facilitate both outward and inward sorting.

In the United Kingdom, the Post Office told a government inquiry in 1977 that it had designed the postcodes, after considerable research and testing, to be 'easily and accurately transcribed' (Carter 1977b, 335). For instance, the first two (alphabetic) digits were designed as mnemonics to aid recall (e.g., AB for Aberdeen, OX for Oxford, etc). But the number of digits, and the fact that they were alphanumeric, militated against

easy recall and transcription. These characteristics were a direct result of the decision to include an inward as well as an outward code. The postcodes needed extra digits to incorporate the inward code, and some of these digits had to be alphabetic to provide sufficient numbers of code combinations (i.e., 26 letters rather than 9 numerals per digit) (Raper et al. 1992, 31). Furthermore, the requirement for an inward code made it impossible to publish the postcodes for easy reference. Frequent suggestions were made in the 1970s (e.g., by the Mail Users' Association) to print them in telephone directories, but the Post Office rejected this idea, on the grounds that it would be too expensive (PORCa 1977, 325, 342). Not only was the number of postcodes too great to include, but more importantly, because each of them only designated an arbitrary group of a dozen or so houses, there was simply no way to list them that was accessible.

The United States had a similar problem. It was not possible to print all the 5-digit codes for the whole country in telephone directories, although each directory did (and still does) include a list of ZIP Codes for the state in which it appears. The problem was compounded manifold when the 9-digit codes were introduced. Moreover, the larger number of digits was more daunting for letter-addressers and prompted transcription errors for those who tried to use them. It was precisely these difficulties which prompted the Postal Service to shift to multi-line OCRs, which could 'read' typed addresses without ZIP Codes, which it 'quietly ceased' trying to get business mailers to use (Tierney 1988, 90). Thus, the move to include inward codes made the task of entering ZIP Codes decisively more difficult for the customers. As a result, it became clear after some time that the task had to be altered so that it was easier. Instead of entering ZIP Codes, all customers had to do to enable multi-line OCRs to function was to type addresses – something that was already occurring with 80% of letters.

In Australia, postcodes were easier to use because they were fewer, shorter, and purely numeric. They were easier to recall and to transcribe because they were shorter.¹⁹ Most importantly, it was possible to print all of the postcodes for the entire country in a 12-page addendum to each local telephone directory, to which people can (and do) easily refer. This was facilitated not only by there being only 7000 of them, but also by the fact that they only contained the outward code.

Australia Post also made it easier for postcodes to be entered in hand-written addresses, by the provision for orange squares on envelopes. Its research had shown that they acted as compelling prompts, and that customers found them much simpler to use than alternative guides

they tested (Australia Post 1985). Indeed, subsequent research showed that when customers used envelopes with preprinted orange squares, 90% of handwritten addresses were correctly postcoded (Beyer 1996).

Thus, Australia Post enlisted customers' co-production of a smaller component of its sorting process – the outward sort – but by doing so, it made it easier for them to contribute. As a result, it ensured that the customer co-production, at least of the encoding task, was done more consistently and effectively than in the United Kingdom and United States. Subsequently, the United States and the United Kingdom have been able to tap a different type of customer co-production, namely, the typing of machine-readable addresses (and more recently, the pre-barcoding of mail). This is useful to these two postal systems because they both have a high proportion of typed addresses in their mail.

In summary, whether customers addressed envelopes in a machine-readable form was strongly related to how easy it was for them. Simpler postcodes and access to postcode directories encouraged customers to co-produce, because they reduced its cost to them in time and effort.

Benefits

The other two factors prompting customers to co-produce concerned not what it costs them to do, but rather what benefits they perceived themselves receiving in return. The evidence from the cases shows that they were motivated to co-produce if they perceived it would benefit them by enabling (1) lower or at least contained postage prices, deriving from increased productivity, and/or (2) improved service quality, in the form of faster delivery times.

For standard letters at uniform rates, there was a crucial difference between these two benefits. This is that a lower price was a *collective* good, in the sense that it must be available to *all* standard letter customers if it is available to *any*. Moreover, its achievement was vulnerable to free-riding. For serious cost-reductions to occur, a significant number of customers had to enter the postcodes correctly. The fewer who did, the more each postal service would have to pay for human encoding, to handle the volume of letters which could not be read by OCR machines, and the higher its cost structure. Thus from the point of view of each individual customer, his or her co-production would make little difference to the overall efficiency of the service, and hence to the benefit he or she received. On the other hand, the time and effort involved in finding and writing postcodes might be more costly and immediate than this notional benefit. A rational calculation of costs and benefits may therefore have led the customer to refrain from co-production

on this ground. It was therefore a difficult pitch to make in marketing postcodes.

By contrast, it was possible to offer the other benefit – improved speed of delivery – to individual customers as a direct result of their co-production. It was possible to say that a letter with a properly recorded postcode would arrive at its destination faster. Alternatively, a postal service might modify its uniform rate regime to encourage co-production, by offering discounts for letters which are postcoded, typed, or pre-barcoded as circumstances require.

The limited available evidence indicates that these individual rather than collective benefits were precisely what the three postal services sought to use, in varying ways. Both the UK Post Office and Australia Post marketed the prospect of faster delivery times to get customers to write postcodes correctly. A typical Royal Mail advertisement urged ‘USE YOUR POSTCODE! ...Every household in the UK has one, and it’s essential you use the Postcode whenever possible as *it really does speed up the postal delivery service*’ (Raper et al. 1992, Plate 4, emphasis in original). Australia Post’s extensive advertising in 1991 and 1992 used the slogan, ‘The shortest distance between two points is four squares’, with copy pointing out that postcodes ‘... help speed your handwritten letters through the post’ (material supplied to author by Australia Post). This effort was backed up by extensive advertising of the faster delivery time guarantees mentioned above.

At the same time, both services have in recent years offered discounts to business mailers. Notably, these discounts are not for postcoding mail, but for presorting or pre-barcoding, and apply only to bulk mail, thereby minimising the transactions costs of differential pricing.

With its higher proportion of business mail, the mix of individual benefits offered by the US Postal Service was different. The majority of business mail is periodic and non-urgent (e.g., monthly credit card accounts), and therefore delivery speed is less critical, whereas price is more important given the large volume. The Postal Service therefore did not seek to sell ZIP Codes on the basis of faster service times. Instead, from 1976 it began to offer extensive discounts (up to 25%) for first class and later for third class (bulk business) mail that was presorted to either 5- or 9-digit level. As in the other two cases, these discounts only applied to bulk mail. This was extended to pre-barcoded mail in the early 1990s. (In the latter case, business mailers (such as phone companies or utilities) are given incentives to send out return envelopes for payments with barcodes – thereby obviating any need for household respondents to undertake any co-production.)

The terms of the exchange between postal services and their customers

Insofar as they produce the physical movement of tangible objects, postal services create outputs rather than outcomes. Moreover, their clients purchase this service in individual transactions. It is not surprising, therefore, that in each of the three cases postal customers' readiness to address their mail in a machine-sortable format was a function of the *material* benefits and costs to them of doing so.

We can conceptualise this as a kind of exchange. It is broader than the exchange which occurs when the customer pays postage and in return has a letter delivered. Rather it is the exchange which occurs when the customer co-produces by writing in the postcodes correctly, and in return receives speedier postal delivery at a lower price. To encourage customers to contribute time and effort, the postal service seeks to reduce the cost to them of doing so, while maximising the service benefits.

Conclusion

Postcodes are rather trivial artefacts of modern life, but the story of why and how postal services utilised them offers insights into client co-production. First, interdependency between the work of postal organisations and that of their customers (who would find it difficult to get their letters delivered without the postal services doing work such as transporting or sorting) demanded co-production. In its earlier forms, the undoubted benefits of OCR technology could not be realised without the particular contribution of customers in entering their addresses in machine-readable format. This dependency diminished as the technology developed, but it was not wholly eliminated. The question was not whether to foster co-production, but rather how best to do it. Second, co-production was more effective when it was confined to those things in which the customer had some proficiency, and when it minimised or reduced the difficulty of those tasks which the customer was not good at. Third, because the organisation was producing tangible outputs for paying customers, material rewards were the primary means of eliciting co-productive effort. This meant offering tangible benefits of service improvement and price reduction, and at the same time minimising the costs in time and effort to the customer of co-producing.

6

Long-term Unemployed People as Co-producers

Introduction

Being unemployed was an infrequent and a transient experience in most OECD countries in the postwar period up to the late 1970s. Unemployment usually only affected a very small percentage of the workforce, and it was largely a cyclical phenomenon. The unemployment benefit was seen as a temporary income support during the brief interval before the next job. Typically, an unemployed person could expect to get another job within a matter of weeks, or at worst a few months. The few people who had been unemployed for a long period were seen either as unemployable for some reason – such as disability, psychological problems, or alcoholism – or as simply unwilling to work.²⁰

There were two main ways in which workers found jobs: one was to do it themselves, either by ‘cold canvassing’ of employers, or in the knowledge that a job was available. Such knowledge could be derived from newspaper advertisements (placed either by the employer or a private recruiting firm), or from social networks – friends, relatives, or company contacts. Traditionally, the majority of jobs have been found through this ‘self-help’ process (Kelvin and Jarrett 1985, 28–30). The other main method was to make use of the public employment agency, whose basic role since its inception has been one of matching job-seekers with job vacancies. This is a valuable function in that it reduces the transactions costs of both job-seekers and employers, by aggregating labour market information. In this context, the unemployed person was a dual *beneficiary*, in terms of our classification. He or she received an unemployment benefit from the social security agency, and a job-matching service from the public employment agency. The client’s role was passive in both respects.

From the mid-1970s, and especially in the 1980s, a combination of sustained economic recession and industrial restructuring brought about much more severe and enduring unemployment. People who lost their jobs found it much harder to secure new ones, and thickened the hitherto sparse ranks of the long-term unemployed. A steadily increasing proportion of the workforce was out of work for six months, one year, or longer. Table 6.1 shows the pattern of unemployment and long-term unemployment in Britain, Australia, and America.

This growth in long-term unemployment, and the factors which gave rise to it, have had significant implications for the nature of the job search process. First, it has circumscribed some of the 'self-help' options for job-seekers. In particular, since long-term jobless people tend to find it difficult to remain in some of their social networks, such as circles of workplace friends, some of their sources of information about available jobs disappear. All else being equal, more of them need to rely on the public employment agency.

Second, the job-matching function of the public employment agency has become problematic. It is harder to find job vacancies which fit the characteristics of available workers, for two reasons. One is that some of the factors giving rise to long-term unemployment – structural and technological change in industry – have rendered the skills and experience of some workers obsolete. The other is that the very fact of being long-term unemployed makes jobless people less attractive to employers, who regard them as lacking in desired work habits, such as punctuality or commitment – a view exacerbated by prejudice and stigmatisation.

Given these factors, the public employment agency cannot simply take a long-term job-seeker, scan the pool of vacancies for a job requiring his or her skills and experience, and then place that worker in the job, as it might with someone jobless for a shorter duration. The problem is that in most cases the long-term unemployed lack – or are perceived as lacking – the kind of skills and experience which employers want. They must change, at least in those respects which are job-related, before employers will take them on.

In the face of long-term unemployment, therefore, the public employment agency necessarily has not one but two responsibilities. In addition to its function of assisting the unemployed to find and obtain jobs, it also serves the function of assisting their 'job-readiness', that is, helping them to become more attractive to employers. Both of these functions entail considerable production by the agency, in screening job-seekers, in compiling and circulating job vacancy information, and

Table 6.1 Unemployment and long-term unemployment as a proportion of the workforce, US, UK, and Australia

Year	US		UK		Australia	
	Unemployment (%)	LT (% of unemployed)	Unemployment (%)	LT (% of unemployed)	Unemployment (%)	LT (% of unemployed)
1982	9.7	7.7	10.1	-	7.2	18.8
1983	9.6	13.3	10.8	45.6	10.0	25.2
1984	7.5	12.3	10.9	46.3	9.0	31.0
1985	7.2	9.5	11.2	50.3	8.3	30.8
1986	7.0	8.7	11.2	48.2	7.9	27.6
1987	6.2	8.1	10.3	47.9	7.9	28.0
1988	5.5	7.4	8.5	43.0	7.0	27.8
1989	5.3	5.7	7.1	39.1	6.0	24.8
1990	5.6	5.5	6.9	34.4	6.7	21.1
1991	6.8	6.3	8.6	28.8	9.3	23.7
1992	7.5	11.1	9.7	35.4	10.5	33.4
1993	6.9	11.5	10.2	42.5	10.6	36.7
1994	6.1	12.2	9.3	45.4	9.5	36.1
1995	5.6	9.7	8.5	43.6	8.2	32.0
1996	5.4	9.5	7.9	39.8	8.2	28.5
1997	4.9	8.7	6.8	38.6	8.3	31.2
1998	4.5	8.0	6.1	32.7	7.7	29.7
1999	4.2	6.8	5.9	29.6	6.9	28.3
2000	4.0	6	5.4	28.0	6.3	25.5
2001	4.7	6.1	5.0	27.8	6.8	22.0
2002	5.8	8.5	5.1	22.9	6.4	22.3

Source: LT statistics – http://www.swivel.com/data_sets/show/1004956; unemployment rates – <http://oberon.sourceoecd.org/vl=4952579/cl=14/nw=1/rpsv/factbook/06-02-01.htm>

in funding and organising programs such as vocational or job search training, or wage subsidies for work experience.

However, they also call for co-production by the unemployed clients themselves. The achievement of both the primary outcome (clients obtaining secure employment) and the intermediate outcome (clients becoming job-ready) requires some contribution of conscious effort by the jobless. Even where the agency plays the producing role, for instance, by providing a job referral or a training program, the outcome will not be achieved unless the client actually attends the interview or the training centre. And the more actively the client contributes – for example, by taking pains to present well at interview, or by engaging with course learning processes – the greater the likelihood that the outcome will be realised.

Tapping this client contribution has been a goal of many industrialised countries since the mid-1980s, manifested in their pursuit of ‘active labour market policies’, linking income support, job placement and other labour market programs (OECD 1990, 1992). They have adopted a variety of measures, ranging from application of sanctions to provision of support and assistance, and there has been considerable policy transfer among the three countries (Dolowitz 2000). These policies entail the development of ‘flexible, innovative social programmes... to incorporate wider goals than income maintenance – preventing the slide into failure, rebuilding skills and employability and re-orientation towards work or other socially useful activity’ (Gass 1988). As one OECD survey of these policies in its member countries explained:

Important as it is to increase the degree of integration and efficiency of delivery of the public employment services, that alone would not be sufficient to solve the problem of long-term unemployment. It has become clear that long-term unemployed people must not become passive recipients of the services on offer, but must themselves become involved in positive action. (OECD 1992, 73)

The question for government agencies is: how can this ‘positive action’ be elicited? This question is complicated by the fact that long-term unemployed people are usually profoundly demotivated about searching for work, precisely because they are *long-term* unemployed. A prolonged period of failure to obtain a job instils a sense of hopelessness and resignation, and a desire to avoid yet another rejection from a prospective employer. Consequently, not only does the client have to be job-ready, but also what we might call ‘job-willing’ – that is, to be

motivated to engage in labour market programs (LMPs) and to look for work.

This endows a third function on the public employment agency, in addition to job-matching and enhancing job-readiness: to promote job-willingness. This could be done by seeking to apply sanctions, such as tying income support more stringently to active job search. Alternatively, it can seek to facilitate and encourage, by offering additional assistance and support. Some of this encouragement may be at the stage where the job-seeker first becomes a long-term unemployed client, involving information, needs-assessment, counselling, and support. Other important facilitation may occur subsequently, through the offering of LMPs for such things as vocational and job search training and work experience. Thus, these programs facilitate not only job-readiness but also job-willingness. This means that the enhancement of job-readiness (through LMPs) is not only a means of mobilising that co-production, as an input into job-matching, but also an *outcome* of client co-production, as Figure 6.1 shows.

In many of the countries pursuing active labour market policies, these sanctions and incentives are integrated in the notion of a *reciprocal obligation* between the job-seeker and the government agency (Mead 1986, 1997; OECD 1992, 31). It was explained thus by Australia’s Department of Employment, Education and Training (DEET) in the early 1990s:

Along with the greater concern to help the long-term unemployed came the concept of reciprocal obligation – if the Government is providing income support, LMPs and other services, it is only fair that clients take up any reasonable offer of assistance and do whatever they can to improve their employment prospects. (DEET 1992a, 21–2)

This chapter looks at the value created through employment services and programs, and then at government initiatives in the countries since the 1980s. It considers the evidence concerning the effectiveness of the

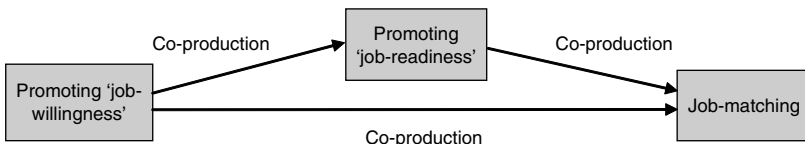


Figure 6.1 Co-production in employment services and programs

co-production engendered by these initiatives. It then examines how well the strategies elicited co-production of both job-readiness and job-finding.

Value in employment programs and services

What is the rationale for governments providing programs and services for the unemployed, especially for the *long-term* unemployed? There are three types of answers to this question. First, government programs and services for the long-term jobless can be justified on the grounds of equity. Prolonged unemployment tends to fall most heavily on those who are already socially, economically, or otherwise disadvantaged, such as lower-income earners (thereby widening inequality in the distribution of income), the less educated, migrants, people with physical or intellectual disabilities, and sole parents, and can therefore be seen as having a negatively discriminatory impact (Tomlinson 1997).

Second, long-term unemployment generates significant social costs (Tomlinson 1997; Winkelmann and Winkelmann 1998; Kieselbach and Winefield 2006). Studies have shown strong causal relationships between unemployment on the one hand and mental illness and suicide on the other and growing evidence that unemployment leads to physical ill-health (McClelland 1993; Clark et al. 2001). Long-term joblessness tends to undermine the functioning of families, being associated with increased domestic violence, marriage break-ups and the reduction or postponement of new marriages. It is also associated with higher levels of crime, especially among young males. Children with long-term unemployed parents tend to miss schooling more than other children, because of ill-health, learning difficulties, inability to meet school expenses and higher truancy rates. As a result, they are more likely to join the ranks of the unemployed in later life (White 1991; McClelland 1993).

In general, long-term unemployment weakens social cohesion, not only as a result of the above-mentioned factors, but also because it increases people's sense of alienation from the society, by dissolving the expectations and responsibilities associated with occupying a defined place in the social structure (Kelvin and Jarrett 1985), and by crystallising differences among different social groups. In particular, as an Australian government task force put it

A real concern is that an increase in the duration of unemployment will lead to an increasingly polarised society with a 'working class'

in regular employment and an 'underclass' where entire generations are excluded from the labour force. This could exacerbate social divisions in the community.... (Taskforce 1993, 73–4)

All of these factors are externalities in the sense that they impose costs of various kinds – economic, psychological, physical, and moral – on those members of the society who are employed. To the extent that programs and services for the unemployed can reduce those costs, they have value for the society as a whole. These social costs also translate into quantifiable financial costs for citizens. Not only does long-term unemployment mean that governments have to spend more on health, police, prisons, psychiatric institutions, child protection and other services, but it also spends more on social payments and forgoes tax revenue that would have been collected had the unemployed been in paid employment.

However, all of this assumes that employment services and programs can actually address the level of long-term unemployment. It therefore begs a more difficult question. Put bluntly, what is the use of trying to find jobs for long-term unemployed people, and assisting them to be more 'job-ready', when there simply are not enough jobs to employ more than a minority of them? Does not the availability of jobs depend more on macroeconomic performance than on employment programs and services?

This raises the third justification for employment programs. It is true that the most powerful solution to unemployment is the creation of more jobs through improved economic performance. But services for the long-term unemployed can themselves contribute to improved economic performance, by facilitating the efficient operation of the labour market. First, they offset the tendency of high unemployment to reduce the rate of skill-formation (Layard et al. 1991; Chapman 1993). For example, in periods of high unemployment, apprenticeship intakes tend to be lower. By facilitating various forms of training, LMPs raise the stock of human capital, all else being equal.

Second, they improve job-matching. The longer the duration of unemployment, the more workers' skills and motivation decline. As a result, their ability to find jobs decreases, and employers are less inclined to hire them. The consequence is 'higher numbers of unfilled vacancies and higher wage pressures for any given level of unemployment' (Taskforce 1993, Paper 1H, 79). This means, in particular, that as the economy turns up in the recovery stage of the business cycle, labour bottlenecks and mismatches occur sooner than they otherwise would.

To the extent that employment programs enhance the skills and motivation of long-term unemployed people, they facilitate and prolong economic recoveries. Some authors (Chapman 1993; Hughes 1993) argue that 'doing nothing about long-term unemployment may be as expensive in the long-run as increasing expenditure now to reduce its impact on the skills and motivation of the unemployed' (Taskforce 1993, Paper 1H, 79).

Significantly, this impact on labour market efficiency depends as much on achieving the intermediate outcomes of enhanced job-readiness and job-willingness as on realising the ultimate outcome of successful job-matching. In fact, several of the previously mentioned justifications for employment programs and services are as well served by these intermediate outcomes. For example, fostering job-willingness through enhancing self-esteem is likely to reduce the incidence of mental illness and family breakdown. Enhanced job-readiness contributes to labour market efficiency through higher skill-formation and the reduction of bottlenecks and mismatches in economic recoveries.

In summary, for these three reasons – equity, reducing social cost, and labour market efficiency – programs for the long-term unemployed can be seen as valuable. More specifically, even if the overall level of unemployment is not reduced in the absence of improved macroeconomic performance, these three values are augmented if the proportion of long-term unemployed among the total unemployed is reduced.

The shift to active job search regimes

Broadly speaking, the efforts of governments in Britain, Australia, and the United States to encourage more active searching for work by the unemployed have involved a long-term increase in the level of sanctions and positive assistance. But within that pattern in each country, the balance between the two has varied; sometimes sanctions have been increased while positive assistance remains unchanged, sometimes the other way around, and sometimes both expand in tandem.

The United Kingdom: Restart, the JSA and the 'New Deal'

Between 1986 and the early 2000s, employment programs in the United Kingdom evolved through four stages, as set out in Table 6.2.

Restart. First was the Restart program, introduced in 1986 (Price 2000, 267). Its central feature was a compulsory requirement that people who had been on Unemployment Benefits for more than 12 months had to

Table 6.2 Employment program changes in the United Kingdom, 1986–2000

Phase	Obligations on each party		Sanctions
	Government to provide	LTU client to provide	
Pre-1986	Unemployment benefit Job offers	Registration at Labour Exchange Acceptance of offers of work	Suspension of benefits for limited period for failure to meet obligations
Restart, 1986	Unemployment Benefit Interviews: counselling, menu of opportunities, incl. LMPs	Attend Restart interview (obligations tightened by 'Stricter Benefit Regime', 1987–88)	Suspension of benefits for up to 6 weeks for failure to attend
Social Security Act, 1989	Unemployment benefit Claimant advice LMPs	Active search for work Attend Restart Course (from 1990) or Jobplan Workshop (from 1993)	Suspension of benefits for 2 weeks for failure to 'actively seek work' (increasing for repeated breaches)
Job-seekers Allowance, 1996	Job-seekers Allowance Labour market programs (emphasis on 'work first')	Sign Job-seeker's Agreement Actively seek work ('sign on' every 2 weeks)	Suspension/reduction of benefits for 1–26 weeks (increasing for repeated breaches)
New Deal, 1997	Job-seekers Allowance (+ 'top-up' for ND 25+) Gateway assistance 'Options' or IAP WFTC Follow-through (N.B. more individualised assistance overall)	Participation in Gateway and in Options or IAP	Suspension/reduction in benefits for 2–4 weeks (increasing for repeated breaches) From 2000, 26-week sanctions for later offences

attend an interview at an Employment Department Jobcentre, focusing on why they remained unemployed and options for helping them. Distinguishing Restart from previous arrangements was its explicit linking of unemployment benefits to a requirement that recipients

actively seek work, or actively enhance their job-readiness. Until then, the obligation had been a more passive one: that recipients be *available* for work. When unemployment benefits were originally introduced on a contributory basis in 1911, the formal test of the obligation to 'show availability for and willingness to work' was simply to register at a Labour Exchange, and accept any reasonable offer of a job (Brown 1990, 7).

The less stringent link between benefits and job search was evidenced by the fact that administration of the unemployment benefit had been procedurally and organisationally distinct from job placement since 1972, when it was transferred to an Unemployment Benefits Service.²¹ It was felt then that having the employment service responsible for benefit control undermined its job placement role (which encompassed not only the unemployed but also others in transit from one job to another), by adversely affecting employers' perceptions of the job-seekers referred to them. Locally, the job placement role was the responsibility of 950 Jobcentres across the United Kingdom.

Restart, however, drew the link much more tightly. In the interviews, unemployed people would receive counselling about why they remained unemployed, and about the menu of opportunities that could help them, including submission to a job, or various labour market programs. Failure to attend the interview without good reason would be seen as evidence of unwillingness to pursue ways of returning to work, and could lead to suspension of benefits, originally for a period of six weeks.

Restart started nationally on 1 July, applying to all those who had been unemployed for 12 months or more. In October 1986, the Government extended this to all those who had been unemployed for six months or more. Moreover, the period for which benefits could be suspended as a sanction for non-compliance was increased to 13 weeks. In 1987, Restart became a 'rolling' programme: all unemployed had to attend an interview every six months.

The government framed the program in terms of 'positive assistance' to the unemployed. But according to Price, the approach taken in the Restart interview 'was much more "directive" than "counselling"...' (2000, 242). Because of the volume of clients, it typically lasted about 15–20 minutes (White and Lakey 1992, 43). As explained to a House of Commons Committee, the aim was to reduce the number of people registered as unemployed (Price, 2000, 242).

Following the June 1987 election, the government developed what was unofficially termed the 'Stricter Benefit Regime' (Price 2000, 267), introducing additional follow-up checks after interviews, requiring

interviewees to complete a questionnaire, and extending penalty periods (Employment Committee 1996, xxi). To cement the link between benefits and job search, it merged the Unemployment Benefits Service with the Employment Service.

Social Security Act. Then in 1989, a new Social Security Act required that claimants must show they are 'actively seeking work' (defined in very specific ways) or lose benefits for two weeks (Price 2000, 269). Although the period of suspension was shorter, this provision was tighter than previously, in that it was applied directly by Employment Service officials, and did not need to go through further review by DHSS before taking effect. Finally, in 1990 Restart courses were made compulsory for those unemployed for two years or more, or those rejecting other offers of help at a Restart interview (King 1995). This was replaced in 1993 by a requirement for compulsory attendance at a Jobplan Workshop for all those unemployed for 12 months or more (Employment Committee 1996, xxi).

Job-seekers Allowance. In 1996, the Major Government replaced the Unemployment Benefit with the Job-seekers Allowance (JSA). The JSA further tightened the obligations on unemployed people, introducing a new sanctions regime aimed at stimulating job search and participation in labour market programs earlier (Finn 2002, 474). When they first applied for benefits, clients had to sign a Job-seekers Agreement setting out what they would do to try and find work – such as checking job vacancies in the press – and subsequently had to re-register (or 'sign on') every two weeks, with a record of their employment search activities. Failure to comply with the agreement attracted sanctions.

New Deal. Thus, by the time they lost office in 1997, the Conservatives' regime for the long-term unemployed was more mandatory, more focused on 'work first' and relied heavily on sanctions. The Blair government, which had been critical of aspects of this regime, shifted course, with its 'New Deals' for various categories of the unemployed, starting first with New Deal for Young People aged 18–25 (NDYP) in 1998, followed up by New Deal for the Long-Term Unemployed (known as ND 25+). Whilst retaining the JSA, the fortnightly 'signing on' requirement and the use of sanctions, New Deal placed more emphasis on positive assistance for the unemployed, tailored more to individual needs. To deliver these programs, the Employment Service (ES) was revamped to provide a 'single gateway' for claimants. It gave front-line advisers more flexibility to help clients and worked with local

organisations to encourage job placements. In 2000, the ES was merged with the Benefits Agency to create Jobcentre Plus, within which local social security and employment offices were to be integrated over a six-year period. The link between benefits and work was thereby embodied in the structure.

ND 25+ applies to people over 25 who have been on the JSA for 18 months. Initially, they enter a Gateway phase of up to four months, during which a personal adviser assists with job search, careers advice and personal guidance, and with overcoming employment barriers. The emphasis is on tailoring action plans to individual needs. Although Gateway is supposed to be voluntary, there can be sanctions for 'wilfully and persistently' refusing to participate (Handler 2004, 147). After that, the client enters the Intensive Activity Period (IAP), during which they may receive a top-up payment in addition to the JSA. The duration and content of the IAP varies according to the individual for whom it is tailored, but can entail one or more of a work placement (which may be subsidised for up to 6 months); training for a specific job; skills training; job search assistance; or interview practice. If no job has been obtained after the IAP, a follow-through phase applies. Sanctions for non-compliance can include removal from or reduction in benefits for two to four weeks.²²

In addition to these employment programs, the government in 1999 introduced the Working Families Tax Credit (WFTC) for low-paid families, designed to 'make work pay', and including childcare tax concessions.

Between 1986 and the early 2000s, therefore, the pattern of obligations between the long-term unemployed and the government agencies with which they dealt ebbed and flowed. Initially, the obligations on the unemployed amounted to little more than being 'available for work.' After 1986, however, the obligation was increasingly to look *actively* for work. Up to 1998, it was enforced by the application of increasingly severe and targeted sanctions. After 1998, however, although the sanctions largely remained, they were accompanied by a greater emphasis on well-tailored and better-resourced positive assistance, aimed at helping the unemployed find jobs and overcome barriers to employment.

Australia: Newstart, Working Nation and the Job Network

In Australia, the pattern of strategies for the unemployed since 1989 varied substantially in both the range of positive assistance they offered and in the sanctions they imposed, with the latter in particular becoming more intensive, as Table 6.3 shows.

Table 6.3 Employment program changes in Australia, 1989–2002

Phase	Obligations on each party		
	Government to provide	LTU client to provide	Sanctions
Pre-1989	Unemployment benefit Job referrals	Attendance at CES Job search Acceptance of job offers	Reduction or suspension of benefits for failure to accept job offers
Newstart I, 1989–91	Unemployment benefit Intensive interview, information, and counselling (for selected participants) Active job placements for some Additional LMPs	Active job search and/or participation in LMP(s)	Reduction or suspension of benefits for failing to accept job or LMP after interview (more stringently applied)
Newstart II, 1991–94	Newstart Allowance Individually tailored package of counselling, support, and LMPs Additional LMPs	Active job search and/or participation in LMP(s), as set out in Activity Agreement	Reduction or suspension of benefits for not observing Activity Agreement
Working Nation, 1994–96	Newstart Allowance Case management (assistance and support) Guaranteed job for 6–12 months	Abiding by Activity Agreement Acceptance of job offer	Increased activity breaches (proportionate to length of unemployment)
Job Network, 1996–present	Intensive Assistance (individualised packages, incl. counselling, job-matching, job search trg, wage or trg subsidies and/or in-house trg) depending on classification of client)	Acceptance of assistance and jobs offered Ongoing 'Activity Diaries'	Tougher sanctions and more rigorous enforcement

Pre-1989. Up until the 1980s, the system of assistance to the unemployed did not explicitly focus on the long-term jobless. On becoming unemployed, a person would register with the Commonwealth Employment Service (CES).²³ He or she would then apply to the Department of Social Security (DSS) for Unemployment Benefits (UB),²⁴ which DSS

granted after checks. The person would continue to receive UB while able to periodically satisfy DSS that he or she was available for and willing to undertake suitable paid work and was taking reasonable steps to obtain such work (Cass 1988, 141).

The CES provided a nominal job-matching service, offering job vacancies to registered unemployed people as employers notified them. Alternatively, jobless people could consult noticeboards at local CES offices. It also referred some clients to what were called 'Labor Market Programs' (LMPs) offering work experience, training or job search assistance to the unemployed.

From 1986, as the proportion of long-term unemployed among the jobless increased, more stringent requirements for lodgement of job search forms were applied,²⁵ and the younger unemployed were subjected to an 'activity test'.²⁶

Newstart. In 1988, the government announced its (initial) Newstart strategy, aimed specifically at the long-term unemployed. The central feature of this new approach was that people who had been unemployed for 12 months would receive intensive interviews conducted jointly by DSS and CES staff, involving counselling, assessment, and referral to help recipients obtain suitable training and to identify job opportunities. This approach would be backed up with comprehensive information and seminars for the clients, and by a doubling of places on LMPs to 50,000 annually. Major new LMPs, such as JobTrain and Skillshare, were also introduced. At the same time, social security provisions were amended to support the new approach. Most importantly, the activity test was extended to all age groups, thus making it possible to still receive benefits while in an LMP.

The Newstart strategy was implemented at a time when the jobless rate was falling, bottoming at 6% that year. Thereafter, however, it climbed dramatically, as a new recession hit, and had reached 9.8% by 1991. In this context, the government decided to introduce a revamped Newstart in July 1991, applying to *all* the long-term unemployed. Each client was still to receive an intensive interview on reaching 12 months without a job, but this interview had a distinctive new focus: the *Newstart activity agreement*, which the client had to negotiate and sign with the CES. Continued receipt of the Newstart Allowance was dependent on reasonable efforts to comply with this agreement. The Newstart package included a substantial expansion in the number of places in existing LMPs, and the introduction of new ones. Implementation of this package, however, was hampered by a restructuring of integrated local CES offices into differentiated service outlets, each focusing on a different type of client.

Working Nation. More importantly, Newstart was swamped by a massive expansion in the number of long-term unemployed between 1991 and 1993 caused by a severe economic recession. Despite large funding increases for LMPs, the sheer volume of clients tended to hamstring the ability of DEET officers to provide positive assistance. In 1994, the Labour government announced 'Working Nation', a \$10 billion package of assistance to the unemployed, including a Job Compact and case management for some clients. Most significantly, case management services were thrown open to competition, in which private companies or non-profit agencies, along with a large public employment service, could compete for tenders, regulated by a new Employment Services Regulatory Authority.

The centrepiece of Working Nation was the Job Compact. The deal, enshrined in a Case Management Activity Agreement, was simple: the government would offer LTU clients case management and a job, and in return, the client had to take up the offer or lose unemployment benefits. Eligible individuals received counselling and support from a case manager, and if necessary relevant training, and then were offered a guaranteed job for at least six months, which could be either a Jobstart subsidised job; a training wage; a self-employment opportunity; or a work experience and training placement under Jobskills or another LMP (Finn 1997, 28). There was also a change in the sanctions regime. Penalties for activities breaches were increased in proportion to unemployment duration. Between mid-1994 and April 1996, nearly 700,000 unemployed people received a case management interview (Finn 1997, 36–7).

Job Network. The election of the Liberal-National Coalition in April 1996 brought an end to Working Nation. The Coalition sharply criticised what it claimed was the high cost and inefficiency of Working Nation, declaring that it would cut expenditure on labour market programs by a quarter, and focus on assisting only those long-term unemployed who could benefit from it. It privatised the remainder of the public employment service and outsourced its work to a 'Job Network' of private for-profit and non-profit agencies. It also brought together benefit payments and referrals to Job Network providers in a single agency, Centrelink, which was a 'one-stop shop' for all welfare recipients' dealings with government. Job Network provided three major categories of service to which people were allotted on the basis of an assessment according to a Job-seeker Classification Index (JSCI) (Webster 1999, 37–8):

1. Job-matching: basic recruitment services available to all unemployed people.

2. Job search training, for a minority of the unemployed assessed as eligible.
3. Intensive assistance, for long-term unemployed or those at risk of becoming LTU, who comprised 548,000 people at the outset. These job-seekers were classified in three streams depending on their level of disadvantage, with two-thirds of places for those assessed as least disadvantaged and 7% for the most disadvantaged. Private providers were subject to incentives to focus on the hardest cases and on 'work first' rather than 'education first'. They were paid twice as much for successfully placing a 'most disadvantaged' person as for a 'least disadvantaged' one. They were also paid more for placing them in a job than for placing them in training.

The McClure Review of 2000 fine-tuned the income support arrangements to make it easier for low-income people to remain in work and expanded the categories of both eligible and obliged people beyond the unemployed.

The USA: Changing welfare-to-work strategies

Governmental initiatives concerning the long-term unemployed have been more variegated in the United States, in two respects (see Table 6.4). First, the clients arrive at LTU status via a complex variety of paths, only broadly covered here. One path starts with people who lose jobs 'covered' by Unemployment Insurance (UI), who are typically 'full-time, male, year-round workers in relatively stable jobs' (Handler and Hasenfeld 1997, 137). They are eligible for benefits for up to 26 weeks after becoming unemployed (and also receive job vacancy information, job-matching, and advisory services from state labour offices). At the end of the 26 weeks, their UI benefits cease, and they join the ranks of those not eligible for UI, who represent other paths to LTU status, and are typically described as being 'on welfare'. Those with dependent children, and in particular single mothers, are eligible for what is now called Temporary Aid for Needy Families (TANF), which was introduced under Clinton's welfare reforms of 1996. This replaced a previous scheme known as Aid for Families with Dependent Children (AFDC), which had evolved from its original version instituted by Roosevelt in 1935.²⁷ People with disabilities typically received Supplementary Security Income. Able bodied adults without dependents (and some with them), including those whose UI benefits had expired, were eligible in most states (but in some of them only in some counties) for General Assistance (GA).²⁸ Finally, a residual scheme provided Food

Stamps – vouchers with which to purchase food – for some of those without any other benefits or whose benefits were insufficient for basic needs.

The second type of variegation has been between the states, which have primary responsibility for employment programs and benefits. Increasingly the federal government has entered into this arena, but typically in the form of providing substantial funds tied to threshold

Table 6.4 Employment program changes in the United States, 1967–2002

Phase	Obligations on each party		
	Government to provide	LTU client to provide	Sanctions
Pre-WIN	AFDC Job-matching (US or state Employment Service) Casework/counselling (since 1962)	Acceptance of job offers	Reduction or suspension in benefits (not rigorously enforced)
WIN (1967–88)	AFDC Work and/or training programs, varying by state (e.g., San Diego SWIM: job search workshop → work experience → education or training)	Register in work or training programs	'Effectively voluntary' (i.e., sanctions not rigorously enforced)
JOBS (1988–96)	AFDC JOBS program varying by state (educ/trg, job-readiness, job development and placement, child care, and transport)	Active job search and/or participation in work requirement option (options varying by state)	Reduction or suspension of benefits for failure to search for work or participate in work requirement
TANF 1996–present (reauthorised 2002)	TANF for a period More variable programs (cf Federal block grants) Welfare-to-Work programs for some Overall greater emphasis on 'Work first' (2/3 of clients)	Active job search or participation in work requirement option (n.b. 'work first'), varying by state	Reduction or suspension of benefits for failure to search for work or participate in work requirement (more rigorously enforced) Time limits

conditions, but leaving the states flexibility in how they meet those conditions. This means that programs vary considerably from one place to another – between states and in some states between counties. It also means that many of the innovations in strategies for the unemployed originated in one of the American states, even if they were only adopted patchily by others.

WIN. Until the 1960s, the obligations on unemployed benefit-recipients were similar to those in the United Kingdom and Australia: they had to be available for work, and accept reasonable job offers. The notion of encouraging them to actively seek work arose in response to growing AFDC rolls in the 1960s. In 1967, Congress established the Work Incentives (WIN) Program, which required AFDC clients, except those with children under six years, to register in work and training programs, but with 'a tacit understanding that neither the client nor the employment program was required to do more' (Bane and Ellwood 1994, 21).

In general, WIN had a modest impact at best, and AFDC recipient numbers continued to grow. But in a few places, demonstration projects showed some of the possibilities. By and large the emphasis of such programs was on promoting 'job-readiness' among the unemployed. San Diego's Saturation Work Initiative Model (SWIM) program, for instance, provided a fixed sequence of services: job search workshop, unpaid work experience, and education and training. Massachusetts' ET Choices (in part a reaction to the shortcomings of the WIN model) was a voluntary program encouraging clients to take part in education, training, and employment activities, as was the Baltimore Options program (Bane and Ellwood 1994, 22–3).

JOBS. In 1988, in response to continually growing welfare rolls, the Reagan administration pushed a more prescriptive approach through Congress. The Family Support Act (FSA) established the JOBS (Job Opportunities and Basic Skills) program, which required all of the states to impose mandatory work or training requirements on welfare recipients. From 1990, each state had to design and implement a JOBS program including educational and training activities, job-readiness programs, job development and placement services, and childcare and transport support services. It also had to offer two out of four work requirement options: job search assistance; on-the-job training; work supplementation (using clients' benefits to subsidise employment); or a community work experience program (King 1995, 174). There was also substantial federal funding, supplemented by state contributions.

This model differed from previous policies in that benefit-recipients not only had to register for activities but also actually participate in them. It also extended this obligation to a wider group, including not only parents with children under six years old, but also those with children between three and five.

Within the JOBS framework, states and counties followed a variety of different approaches. In particular, programs differed as to whether they sought initially to steer unemployed clients to education and training activities, as a preparation for re-entering the workforce ('education first'), or alternatively to seek to place them as soon as possible in a job, even a less well-paid, more casual job ('work first'). They also differed in the extent to which activity requirements were mandatory in actual practice.

One major example was California's GAIN (Greater Avenues to Independence) program, under which counties had some flexibility within the federal rules, and therefore varied in their relative program emphases on work or education and training, as well as in the use of sanctions for non-compliance. Perhaps the most substantial case was Riverside County, which adopted a 'work first' philosophy and was among the most frequent in its application of penalties to clients who did not comply with activity requirements (Riccio and Hasenfeld 1996, 525–6). It also had staff dedicated to approaching employers to find jobs (Riccio et al. 1994, 16). Riverside's program had considerable success in placing clients in work and getting them off welfare, saving taxpayers substantial sums of money, and consequently became known nationwide as 'the standard-bearer for the "work first" strategy' (Handler, 2003, 28).

TANF. A third phase of welfare reform began in 1996, with the passing of the Personal Responsibility and Work Opportunity Reconciliation Act, which replaced AFDC with 'Temporary Assistance to Needy Families' (TANF). Embodying President Clinton's promise to 'end welfare as we know it', this legislation dramatically limited access to welfare, which it explicitly declared to be no longer an entitlement. It imposed a time limit of two consecutive years for receipt of benefits, with a five-year lifetime benefit (states could impose shorter time limits – in ten, it is only two years (Handler 2004, 25–8)). Only 20% of recipients could be exempted from this time limit, on stringent criteria. Moreover, states would have to push an increasing proportion of welfare clients off their rolls, from 25% of single-parent adults in 1997 to 50% in 2002. States exceeding these targets gained proportional extra funding, whereas those not enforcing mandatory work requirements were to have their grants cut. The net effect was to impose tougher requirements

on clients, and apply funding carrots and legislative sticks to states to ensure those requirements were imposed. TANF was reauthorised by Congress, with some tightening of obligations, in 2002, and again in 2005.

California responded to TANF by revamping its welfare-to-work program under a new banner of CalWorks. Consequently, Riverside County adapted its program to the requisite TANF guidelines.

Changing reciprocal obligations between the client and the government

Although there was considerable international borrowing of policies, the balance of reciprocal obligations varied at different times between the three countries. In each of them, the general trend was to expand both the range of positive assistance and the incidence and severity of sanctions. But in the United Kingdom, sanctioning was proportionately lower in the early (initial Restart) phase, while positive assistance was expanded in the late (New Deal) phase. By contrast, in the United States, after the initial laxity of the WIN phase, sanctioning became steadily more severe, while at the same time the type of positive assistance became oriented to a more narrowly focused 'work first' model, with less being spent on other types of programs such as education and training. Australia was somewhere in between.

Assessing the performance of co-production by the long-term unemployed

It has already been established that client co-production is indispensable to the work of agencies dealing with the long-term unemployed. Without some effort by the clients themselves, it is not possible for these agencies to place them in jobs or to enhance their job-readiness. The question, therefore, is not whether it makes sense for an organisation to utilise client co-production, but rather how much it should do so. Can program effectiveness be increased by enlarging the role that clients play in their work? In answering this question, it is useful to dissect the process of obtaining a job into its different elements:

1. finding a job vacancy;
2. acquiring requisite skills;
3. presenting well in application and at interview, that is, making a sufficiently favourable impression on an employer to be offered a position; and

4. assimilation into the job, that is, performing well enough in the early stages of the job to be able to retain it.

In all three countries, employment agencies have been moving to deepen the role of clients in performing the second, third, and fourth of these tasks. This is not surprising, given the essential role of the clients in these particular elements. Making a favourable impression in an interview usually requires the job-seeker to offer relevant skills, to present themselves appropriately, to display interest and enthusiasm, and to convey to the employer some relevant information about their qualifications and experience. Keeping the job requires the employee to demonstrate appropriate work habits such as punctuality and reasonable diligence, as well as the requisite knowledge and skills, both in the early stages and thereafter. Logically, these things cannot be done well unless the client is committed and actively engaged in the process, which is in turn a function of his or her job-readiness. The role of the employment service is therefore not to perform these tasks but to encourage the clients to do them more enthusiastically and capably, through programs such as job search training, job clubs, and vocational training.

However, in respect of the first task – finding job vacancies – the picture is more complex. Certainly governments in all three countries have long recognised that the *short-term* unemployed typically find jobs for themselves and indeed have encouraged them to do so. This has been the rationale of siting Jobcentres in accessible locations, and of introducing technology such as touchscreens for job-seekers to utilise (Price 2000, 163, 316). But in regard to the long-term unemployed, practices vary between the three countries. In Australia and the United Kingdom, the employment agency generally has a greater role in finding suitable jobs and referring clients to them than in the United States. In the latter case, the extent to which employment programs engage in ‘job development’, as vacancy-finding by the program providers is called, differs from state to state or even from county to county. In broad terms, the federal welfare-to-work schemes, such as WIN, AFDC, and TANE, have mandated the states to run programs which place the onus on the clients to search more actively for work. Although many offer basic job search assistance, it is aimed at prompting the clients to find work. Some employment programs, however, place a stronger emphasis on ‘job development’, that is, on assembling vacancies for their clients to try (Riccio et al. 1994; DEWR 2002, 42). In the Riverside GAIN program, for example,

the staff engaged in extensive job development; in fact, workers were specifically hired for this task. The county was able to promise local employers job applicants 'that afternoon'. Employers co-operated to save the costs of screening large numbers of job applicants responding to general employment-available ads. (Handler and Hasenfeld 1997, 78)

Unfortunately, there is only limited evidence concerning the relative effectiveness of organisations and long-term job-seekers in finding vacancies. There is a substantial body of research indicating that programs such as Restart, New Deal, Newstart, Working Nation, and GAIN have some effectiveness in getting long-term unemployed people into jobs, and in some cases into stable, better-quality jobs. But very little of this research distinguishes the contribution made by clients to finding vacancies from that of the organisation. In these and other programs, the most that can be said is that their greater effectiveness is a result of an improved contribution from *both* the organisation and the client. Specifically, it seems that in these cases the employment service is better at finding jobs, whereas the client is better able to clinch them by presenting and performing well. The superior capability of the employment service is a function both of its own specific competencies, such as its database (which lowers its transactions costs) and the accumulated expertise and knowledge of its officers, and the fact that long-term unemployed people's job-finding competencies and skills have atrophied as they have become distanced from social and employment networks.

Logically, co-production by long-term unemployed clients in itself should lower the costs to the government for each successful labour market outcome. The more the client is engaged in active job search, the fewer the resources the government should have to put into job-matching activities and labour market programs. But this is only one part of the story. What resources have to be expended to mobilise that client co-production? What are the costs of the client interaction processes (such as intensive interviews and activity agreements) and LMPs which stimulate greater job-willingness?

However, to ask these questions is to raise further issues, since these expenditures also generate savings. In direct budgetary terms, each successful job outcome enables reduced expenditure on unemployment benefits, and increased income tax revenues. An analysis of the New Deal for Young People in the United Kingdom found it close to being 'self-financing in Exchequer terms' (Bivand 2000, 1). In the United

States, the California's GAIN was described as 'a relatively expensive program', but in two of its counties (Riverside and San Diego), government budgets came out ahead, since every dollar spent on the program was outweighed by savings in welfare payments and foregone taxes (however, it also seems they reduced expenditures on training). But other counties incurred a net cost to government (Riccio et al. 1994, 3). In Australia under Newstart, the analogous net cost of labour market programs ranged from \$1460 per placement in Job Clubs to \$3226 for JobTrain.²⁹ A synthesis study in the United States drew:

an important but paradoxical finding from the research on welfare-to-work programs: On the one hand... studies show that these programs often save more than they cost, resulting in an *ex ante* decrease in public spending. On the other hand, government needs to spend money to put these programs in place. In fact, both statements are true: An upfront investment during the first year or two after a program is implemented or greatly expanded is needed in order to generate savings that typically continue for many years. (Bloom 1997, 11)

Beyond that, however, there are further budgetary savings. As explained previously, lower long-term unemployment leads to reduced expenditure on government programs in areas such as crime control, family law, public housing, drug treatment, psychiatric services, education, and health. While these expenditure reductions are difficult to quantify, it would be surprising if, when combined with direct budgetary savings, they did not match or outweigh program outlays (Watts and Mitchell 2000). Moreover, there are also benefits which accrue not to government coffers but to the broader society, such as more efficiently functioning labour markets – also difficult to quantify but similarly significant. There are also more specific benefits to employers.

Even if we confine ourselves to direct budgetary flows, however, what these data also indicate is that some types of program are more expensive than others. Broadly, 'education first' is more expensive per successful outcome than 'work first', not least because the welfare benefit savings and tax revenues start flowing to government sooner under 'work first' (Bloom 1997, 11). In Australia under Working Nation, for example, the cost per successful job placement for the JobTrain and SkillShare programs – both stressing skills training – was roughly twice that for Job Clubs and JobStart – which emphasised work search and wage subsidies. There is also evidence that the more intensive the assistance to clients – for example, through personalised case management – the more

expensive the program per employment outcome, as it was, for example, under Australia's Job Network (DEWR 2002, 127).

In summary, encouraging co-production by the long-term unemployed seems to be more effective in enhancing job-readiness and in securing jobs, but of mixed effectiveness in the activity of finding jobs. At the same time, client co-production appears to have roughly neutral implications for direct budgetary costs. Overall, it seems to have had a net positive effect by comparison with organisational production.

Eliciting co-production

All three countries have deployed a variety of instruments to elicit co-production by the unemployed. This section considers their relative effectiveness. It first considers sanctions, such as the suspension or reduction of benefits or the imposition of time limits, and then looks at more positive assistance, specifically income supplements and then labour market programs such as job search training and assistance, work experience, basic education, and skills training. Finally, it considers the nature of the relationship between the organisation and the client, especially the level of advice, support, and assistance.

Sanctions and time limits

Wielding sanctions against the unemployed to get them into work appeals to the political proponents of welfare reform in its simplicity and decisiveness, pithily expressed by Lord Rayner in the United Kingdom as 'policing the workshy' (Bryson and Jacobs 1992). But a large body of research shows that the impact of sanctions, either on employment outcomes or on unemployed people's behaviour, is more complicated.

The effect of sanctions on employment *outcomes*, that is, on whether and how much they lead to unemployed people gaining viable employment, is inconclusive. Some studies seem to demonstrate convincingly that employment programs making extensive use of penalties for non-compliance with activity requirements have more success – albeit usually modest – in getting people into work (Riccio et al. 1994; Dolton and O'Neill 1996; Freedman et al. 1996; Finn 1997; O'Neill and Hill 2001; MDRC 2002). But all these studies suffer from a failure to distinguish the effects of sanctioning from those of other aspects of the programs, such as positive assistance. In the United States, an early synthesis of the research on six pre-JOBS programs found a 'lack of any clear relationship between sanctioning rates and impacts', and uncertainty as

to 'what role sanctioning played in increasing participation and producing program impacts' (Gueron and Pauly 1991, 184). More recently, a RAND Corporation research synthesis surveyed a large number of empirical studies and found that none of them had isolated the impact of sanctions from other factors (Grogger et al. 2002, xxi). A 2002 review by MDRC of all the research to date concluded that

...one cannot readily separate out the effects of mandates above and beyond the effects of the services that accompanied the mandates, and there was no difference among the high-enforcement programs in participation rates. (2002; see also Bell 2001)

In particular, in the United States in the 1990s, programs which disproportionately wielded sanctions also tended to adopt a 'work first' philosophy as their central strategy. To the extent that sanctions and 'work first' go together, successful outcomes may reflect the strengths of the latter, in whole or in part. As discussed below, it may also affect the quality and sustainability of jobs obtained.

Similarly, inconclusive findings emerge from the research – necessarily confined to the United States – on the effects of time limits. In a research synthesis, Bell found that the decline of welfare caseloads in the second half of the 1990s has 'not been traced convincingly to individual reform measures such as time limits or work sanctions' (2001, 2; see also Grogger et al. (2002)).

Other studies suggest that sanctioning may inhibit successful employment outcomes. A telling UK example was Restart's record over time. Between 1989 and 1992, the number of job-seekers sanctioned declined from 104,386 to 6,539, but the proportion of Restart clients placed in jobs slightly increased. Between 1993 and 1995, there was a 313% increase in sanctioning, yet the proportion of Restart interviewees placed in jobs increased by only about half, from 1.1% of interviewees to 1.7%. Finally, during 1996–97, sanctioning dramatically declined (according to Blackmore (2001, 154), it fell by 60% during the last quarter of 1996, because of implementation problems) but the number of job placements emanating from Restart jumped considerably to 4.4% of interviewees. In the United States, Ashenfelter et al. (1999) analysed four trial programs in which the effects of sanctions were distinguished from job assistance, and found no significant effects of tighter monitoring on claim duration.

Insights into why sanctions have at best inconclusive impacts on employment outcomes emerge from the research into their intermediate

effect on the *attitudes and behaviours* of the unemployed. The motivational theory on which sanctions are based predicts that jobless people would prefer to receive benefits, even with active work search obligations attached to them, than not to receive them and avoid the obligations. This theory assumes, first, that people are primarily motivated by material rewards, second, that they are aware of their entitlements and obligations, and third, that they are capable of acting consistently with their preferences. But the consistent message from the research is that while some long-term unemployed people are prompted to maintain or step up the search for work, a significant proportion react to sanctions in other ways.

In general, many do not alter their work search effort in response to the threat or actuality of sanctions (Riccio and Hasenfeld 1996, 530; Finn 1997; Weaver and Hasenfeld 1997, 438–9; Finn et al. 1998, 103; Vincent 1998, 32; Dhillon 2000; Millar 2000, 28; Price 2000, 313; ACOSS 2001; Blackmore 2001, 156; Tann and Sawyers 2001; Ziguras et al. 2003). The main reason is that sanctions are largely irrelevant to their propensity to work, which is more a function of their capabilities than their motivations. The *long-term* unemployed contain a higher proportion of the most disadvantaged job-seekers: those who have been on welfare the longest and hence have low self-confidence, or those with more limited education, or those who speak little or no English, or those with major barriers to employment such as disability, psychological problems, addictions, or criminal records (Finn et al. 1998, 29–31; Hasluck 2000, 13–14; ACOSS 2001, 18–22; Handler 2004, 52–3). These people find activity requirements more difficult, in various ways. A RAND Corporation study of a representative three-county sample in California cited program workers' estimates that about half of those sanctioned were in this category (Klerman et al. 2000, 177).

Many are simply unaware of the specific requirements and possible penalties. A UK survey found low levels of understanding among JSA clients of aspects of the rules and penalties (Vincent 1998, 17–18; see also Saunders et al. 2001, 9). A US government report on TANF clients found that they 'rarely had more than a superficial knowledge of sanctions... Although caseworkers repeatedly inform clients about sanctions, many clients still do not understand. Some clients often act like they don't care about sanctions when, in reality, they do not understand the information because of language barriers' (DHHS/OIG 1999, 12–13; see also Pavetti and Bloom 2001, 9; Klerman et al. 2000, 177). On top of that, many of the clients find it hard to comply even if they do know the rules. Their disadvantages – especially low self-confidence, literacy

problems, disability, or mental illness – diminish their capacity to perform work search activities, and they are also constrained by transport and childcare difficulties (Hasluck 2000, 3–15; Handler 2004, 52–3).

Despite the fact that disadvantaged clients are least likely to be motivated by sanctions, they are, by a perverse irony, more sanctioned than other clients (Saunders et al. 2001, 9–10; Handler 2004, 52). This arises precisely because of their disadvantage: they are less able to comply, and therefore more likely to be sanctioned. Moreover, they find it more difficult to appeal once sanctioned (Zedlewski and Loprest 2000, 14–15).

This lack of ability of clients to understand or comply with their obligations has been reinforced by the growing complexity of the rules, stemming from the increasing conditionality of benefits being imposed by governments under mutual obligation regimes. The obligations on clients – such as activity agreements, employer certificates, periodic signing, time limits and graduated penalties – are cognitively more elaborate and tend to require more ‘compliance’ activity as opposed to job search activity. The routines that the jobless must perform become more involved, entail more paperwork, and require more frequent and punctual contacts with employment agencies (Blackmore 2001, 153; Welfare Rights Centre/ACOSS 2001, 4–5; Handler 2004, 48–50).

Thus, for a substantial proportion of the long-term jobless, sanctions are meaningless as motivators of job search. They are rather like speaking more loudly in an effort to prompt comprehension from another person who does not understand your language. Another group, however, understand the rules and choose nevertheless to breach them. A small proportion of them do so because sanctions provoke resentment on their part (Finn 1997; Weaver and Hasenfeld 1997; Vincent 1998; Ziguras et al. 2003). They feel the rules are futile, unfair, or demeaning, as expressed by JSA clients in the United Kingdom:

It is totally unreasonable to want people to actively seek work when there's no work there.

It's not morally right because you could have paid in all your life...never took anything from the government and suddenly you've got to go to all these interviews and no-one wants to employ you, 57 years of age for instance, you've got no chance whatsoever of getting another job but you've still got to go to the interviews. (Finn et al. 1998, 23)

Others wilfully fail to comply for opportunistic reasons: they seek to avoid their job search obligations while continuing to receive benefits.

Despite popular mythology, they make-up a minority of benefit-recipients (Klerman et al. 2000, 175; Bivand 2001). One important way in which this non-compliance manifests itself is through gaming behaviour by clients. The welfare system's primary function of checking whether clients have been actively seeking work is vulnerable to gaming because of information-asymmetry: it is hard for an agency to monitor clients' work search behaviour because it occurs unobserved by agency staff. Governments seek to tackle this problem by requiring job-seekers to obtain proof of approaches to employers, such as signatures on certificates, but these in turn require checking. Because employers or training providers have to play such roles, there is also a degree of interdependency that clients can take advantage of, by shifting the blame for lack of signatures onto them – again, requiring checking by the agency. These are not insurmountable problems, but they do impose costs on the agency: they have to employ more staff to perform these monitoring roles (Finn et al. 1998, 25).

However, in fact, welfare authorities in most jurisdictions are typically under-resourced, and individual staff have large caseloads which only allow them to undertake minimal checking of clients, quite apart from performing other roles such as providing advice and support. As Employment Service workers in the United Kingdom put it in respect of the JSA:

I don't know if JSA has been implemented by the letter of the law anywhere. It certainly hasn't been here.

... what really happens is 'volumetrics' where you divide the number of claims by the number of staff, and that gives you the time you can spend with each client. We get seven minutes for each client because we're so short staffed so we just say 'sign here'. (Finn et al. 1998, 25)

Moreover, opportunities for gaming are increased by the greater complexity of the rules, offering claimants a wider variety of loopholes, exceptions and appeal grounds to exploit (Blackmore 2001, 154–5).

Thus, only some long-term unemployed people are spurred on in their search for work by the threat or imposition of sanctions. But there is a question about whether they induce job-seekers to find *stable, sustainable* employment. This question arises because of the type of motivation engendered by sanctions. Fundamentally, they are *extrinsic* motivators. They involve external punishments which those subject to them incur for failing to comply. The assumption is that compliance is a 'disbenefit', the reward for which is avoidance of the punishment.

By contrast, intrinsic motivations operate when the act of compliance is itself valued by the client. Instead of getting a job being a cost, it is experienced as a benefit (Deci 1975; Frey 1992, 1997). In this context, the effect of extrinsic motivators is to 'crowd out' intrinsic motivations (Frey 1992). An important consequence of this is that sanctions do not internalise compliant behaviour; they elicit grudging compliance, which requires continuous monitoring, rather than consummate co-operation (Weaver and Hasenfeld 1997, 98). The risk is that clients will engage in short-term compliant behaviour, going through the motions of job search or taking any old job that comes along, even if is short-term, or paid at a level that is not economically sustainable, or does nothing to enhance their skills. However, the evidence on this issue is scanty and inconclusive (see different perspectives from MDRC 2002, 3; Handler 2004, 54–5).

In summary, sanctions have variegated effects. Some unemployed people simply find it difficult to comply; some do not want to comply but wielding sanctions against them can be difficult; and some of those who do comply may get less sustainable employment.

If sanctions and time limits are of such limited effectiveness in getting people into work, why do governments around the world use them? One reason is that a small proportion of clients is wilfully non-compliant and will respond only to firm compulsion. This poses a problem for the agency: treating all clients as if they deserve to be trusted will enable the non-compliant to take advantage of an 'easier' regime, but on the other hand treating them as if they are non-compliant will prompt resentment on the part of those who are inclined to be compliant. This turns out to be an issue for all sanction-wielding agencies, and this is taken up in Chapters 7 and 8.

However, perhaps the real reason why some governments deploy sanctions is that they are good for *getting unemployed people off the welfare rolls*. There is clear evidence that the threat of sanctions for failing to comply with activity requirements prompts some benefit-claimants to exit from the unemployment register (White and Lakey 1992; Dolton and O'Neill 1996; Richardson 2002; Grogger et al. 2002). A percentage of these people do so to avoid detection of fraudulent claiming, in that they have undeclared income from working 'under the table' (Dolton and O'Neill 1996; Richardson 2002). Others exit because they wish to avoid complying with activity requirements (Besharov and Germanis 2000, 21). It is also apparent that those to whom time limits are applied have no choice but to leave the register. Some of them redouble their efforts to find work, and in some cases are successful, but most find

themselves falling back on secondary or emergency benefits, or falling into greater poverty (Handler 2004, 56–7). Besharov and Germanis estimate that in the United States, between 40 and 50% of mothers who left welfare as a result of the time limits under TANF are not working regularly (2000, 23–4). To the extent that they do not find paid employment after they leave benefits, the long-term jobless cannot be seen as co-producing the outcome the employment agency professes to be seeking. Instead, quite the opposite is occurring: they typically become part of the very ‘underclass’ the agency’s programs are supposed to be limiting.

Thus, eliciting co-production of employment processes and outcomes by long-term unemployed people seems to require the offering of incentives rather than sanctions, that is, of positive assistance. What follows considers two main categories of this: income supplements and labour market programs.

Positive assistance: Income supplements

An important strand of welfare policy deliberation and practice has focused on the income levels of clients. Historically, one strand of thinking that has informed government practice from time to time has been the view that unemployed people do not want to get a job because they can draw unemployment benefits without working. This view is usually based on the assumption that the unemployed are inherently lazy.

Although this perspective is most frequently found in the tabloid media, it is lent authority by some economists, who explain job search behaviour based on utility theory (Devine and Kiefer 1991; Moffitt 1992; Moore 1997; Richardson 2002). In this approach, the job-seeker decides whether to accept job offers on the basis of a rationally calculated reservation wage. The higher the level of unemployment benefits, the higher this reservation wage is likely to be. On the basis of this assumption, the argument is that unemployment benefits remove the incentive to work. They are set at such a level relative to wages, or available for such a duration, that unemployed people find the ratio of benefits to costs higher if they do not work (even if their income is lower) than if they do. The solution they propose is to reduce the level of unemployment benefits and the period for which they are available.

However, the weight of empirical research is heavily against this argument in its several variants. First, unemployment benefits have never been set at a level high enough to encourage people to leave or stay out of the workforce (Gallie and Vogler 1994). Bradbury et al. (1991) demonstrated that the typical recipient of unemployment benefits in 1991

would more than double his or her income on obtaining a full-time job. Conversely, 70% of average working families in 1990 would lose at least half of their disposable incomes if their breadwinner became unemployed (Whitlock 1994). Overwhelmingly, the data show that, on an average, being jobless is much worse than being employed. This is most clearly evidenced by the large number of studies which have shown that increases in the unemployment benefit rate have a minimal impact on unemployment rates (e.g., Gregory and Paterson 1980; Trivedi and Kapuscinski 1985; Layard et al. 1991). Second, although the period of time for which benefits are available has some effect on how long people remain unemployed, it is relatively small, and not as important as other factors such as the provision of LMPs (Groot and Jehoel-Gisbers 1992). A multi-country study in Europe showed that reducing unemployment payments by one year would result in less than 1% reduction in the jobless rate (Layard et al. 1991).

Thus, for the large majority of the long-term unemployed it is not 'work-shyness', bolstered by indulgent unemployment benefits, which explains their lack of employment. However, for a minority of them in particular categories, such as married couples in low-income occupations with several children, the income from benefits does match or outweigh wages, making it financially difficult for them to work, even though they want to (Whitlock 1994). Since the rise of 'active work search' policies, scholars and policy-makers have reframed the issue for this group in a more positive vein, sometimes expressed as 'making work pay'. Rather than seeking to reduce the benefits available to those without jobs, the emphasis is on enhancing the benefits available to those who obtain low-paid jobs, to make it more feasible for them to remain in work. These take the form of income supplements, usually on a sliding scale and administered through the tax system, available either continuously or for some initial period of being employed – for instance, the Earned Income Tax Credit in the United States or the Working Families Tax Credit in the United Kingdom (Bloom and Michalopoulos 2001; Finn 2002).

The research shows clearly that these supplements have a positive impact on employment outcomes and reduce the poverty of clients once employed (Disney et al. 1992; van Reenen 2001; Grogger et al. 2002; MDRC 2002). However, for the *long-term* unemployed, the prospect of additional income alone is not sufficient to prompt active job search, because of their deep demoralisation in the face of repeated rejections from employers, or because they are more likely to have disadvantages that make it harder for them to secure jobs (McLaughlin

et al. 1989; DETYA 1997; Clasen 2000). Research to date indicates that supplements have a greater impact on employment outcomes if they are accompanied by the provision of labour market programs such as job search training or work experience (Bloom and Michalopoulos 2001; Finn 2002; Grogger et al. 2002).

This suggests that in this case material rewards are, to use Herzberg's terms, more like 'hygiene factors' (i.e., basic preconditions or enablers) than motivators (Herzberg et al. 1993). They have the effect not so much of adding an incentive to find work as of removing a disincentive.

Positive assistance: Labour market programs

The other instruments by which governments have sought to elicit co-production from the long-term jobless have been labour market programs – that is, the provision of various forms of positive assistance such as job-matching, job search training, work experience, vocational training, basic education, and general support and advice. They are essential aspects of the 'deal' offered by mutual obligation regimes since the late 1980s: government employment agencies offer unemployment benefits and labour market programs, and in return, unemployed people actively search for work. They provide substance to the broadening of the 'work test', which was simply that the jobless would accept any reasonable job offers, to the 'activity test', which required them to undertake one or more of a variety of activities such as training or work experience in addition to accepting offered jobs.

The first point to make is that, taken as a whole, labour market programs do make a difference. All of them have some positive effect on the propensity of the unemployed to search for and acquire jobs. This is the clear consensus of all of the studies of these programs, both those considering programs as a bundle (e.g., DETYA 1997; Finn 1997; Boeri et al. 2000; Hasluck 2000; DEWR 2002; Grogger et al. 2002; MDRC 2002), and those examining particular types of programs, such as job placing and job search training (White et al. 1997; DEWR 2002; Hamilton et al. 2001; DEET 1994b), work experience (DEWRSB 2000b), or education and training (Hotz et al. 2000; DEET 1993a, b).

However, there is less consensus about which of these programs are more effective at eliciting job search activity. There are many studies quantifying the effectiveness of individual programs in individual countries, but the broad fault line of the debate can be seen as one between those who argue for a 'work first' (or 'job search first') strategy and those who advocate 'education first' (Peck 1996; Bloom and Michalopoulos 2001; DEWRSB 2000a). Advocates of the former approach argue that

quick entry into a job of any kind is the surest route into viable employment, since it breaks the cycle of inactivity, re-instills work habits and routines, and provides a springboard for clients to work their way up from entry-level jobs. By contrast, the proponents of 'education first' point to the need to develop the knowledge and capabilities of less educated clients, who are disproportionately represented among the long-term unemployed, to get them more ready for work. The evidence from the research shows a more complex picture than either of these positions.

First, the relative effectiveness of the two approaches varies over time. 'Work first' programs have a big impact in the short-term (roughly the first six to twelve months). But for longer periods (two to five years), the success rates of the two approaches converge: 'education first' programs are more effective in the long-term than the short-term, and vice versa for 'work first' programs (Bloom et al. 2001, 38; Bloom and Michalopoulos 2001, 15). A noteworthy example was the previously mentioned Riverside county in California – which strongly emphasised 'work first'. The percentage of program participants employed was 18% higher than for non-program participants in 1988, but only 9.3% higher in 1990. By contrast, the 'education first' program of Alameda county showed a net employment impact of only 2.8% in 1988, but that rose to 7.2% by 1990, almost as high as Riverside (Riccio et al. 1994, 19–20). Considering an even longer period, an analysis of GAIN data found that after nine years, Alameda's clients were doing slightly better than Riverside's (Hotz et al. 2000). Meanwhile, three counties or cities – Riverside, Atlanta, and Grand Rapids – set up paired programs ('work first' and 'education first' side by side) to more explicitly compare the impacts. While 'job search first' had a much greater impact than 'education first' in 1991, by 1993 the difference was negligible (Bloom and Michalopoulos 2001, 15). The implication of these findings is that people pushed into work too quickly tend to get less stable jobs (see Freedman 2000). It may also mean that they get less well-paid jobs (Strawn et al. 2001) and end up back on benefits because they find it hard to keep making ends meet.

Second, the research at the level of whole programs indicates that while 'job search first' is on average slightly more effective than 'education first', neither strategy on its own is optimal. The most effective strategy is a mixed approach, or more precisely one that uses a mix of initial activities, followed by either an employment focus or an education one, as exemplified in the various GAIN programs (Bloom and Michalopoulos 2001, 11; MDRC 2002).

Third, the impact of 'education first' depends on its particular type. One is basic education, to address literacy and numeracy problems, and the other is vocational training, to address a lack of specific skills required for the type of job being sought. The evidence suggests that vocational training has a much greater effect on employment outcomes than basic education (Bloom et al. 68). This is not surprising, given that it takes less time and it is more targeted to the specific skills that employers want. Indeed, the impact of vocational training on its own on clients' earnings over time is quantitatively very similar to that of job search training – a characteristic 'work first' program (Bloom, Hill and Riccio 2001, 68).

For the purposes of this book, however, perhaps it does not matter which strategy is more effective. They both resonate with clients' intrinsic motivations, 'work first' by improving their sense of connectedness with society and countering the atrophying of work habits (see Gottschalk 2005), 'education first' by upgrading their skills and increasing self-confidence. As will be discussed below, these effects are central to eliciting co-production from the long-term unemployed.

Client relations

Underpinning all these instruments is the nature of the relationship between the government agency and the client. Front-line welfare or employment workers are the key decision-makers in the offering of various forms of positive assistance and in the application of sanctions, both in the initial encounter stage and in ongoing dealings. How they act affects the specific impacts of the various services and penalties. They shape the clients' perception of the service they receive, and hence their levels of willingness to co-operate.

Three interrelated aspects of client service emerge as important motivators of co-productive behaviour: bilateralism, helpfulness, and individualisation. 'Bilateralism' refers to the degree to which the client has a meaningful say in shaping the relationship with the agency. At least, it means that the front-line worker needs to ascertain the clients' real needs and incorporate them into program offerings, rather than presume what they might be. This is most salient in the initial encounters, typically entailing some kind of intensive interview and the formulation of an activity agreement – which have been adopted in all three countries. Whether the interview and agreement constitute meaningful motivators of work search depends on the degree of bilateralism, in which the client has some say in what goes into the back-to-work plan. Bilateralism also enhances trust between the caseworker and the

client, which is acknowledged in most casework practice as being very important, since it facilitates the further development of the relationship, but it is also very difficult to foster (Anderson 2001, 168). The available research shows that where clients feel that the process of negotiating an activity agreement is fair, they are more likely to have a positive view of the specific obligations within it (Reark Research 1992; DEET 1995; Weaver and Hasenfeld 1997; Hasluck 2000; Pavetti et al. 2005). By contrast, where they feel that the agreement-formulation process was imposed on them, they have less commitment to it. Finn et al. found several examples in interviews with job-seekers in Britain who felt they had been 'conned' into signing their Job-seeker's Agreement, for instance,

We had a discussion and he said, 'Well, you're doing everything you can to find work'. He then printed off a print-off, went over to another machine to get it, gave it to me, facedown, and said, 'Sign here to show that you've been and you've done it.' So I signed this form and when I got home I turned it over and on the back it said, 'You *will* visit the Job Club, you *will* phone an employer, you *will* do this...'. Now, I never agreed to any of that. So the next time I went in to sign on I handed it back to them and I said, 'I'm not accepting this, I never agreed to this...'. I'm not saying that I *wouldn't* do it, I'm just saying that I never made that agreement so therefore I don't feel bound by it. (1998, 26-7)

By reducing job-seekers' sense of autonomy, imposed agreements diminish their motivation to co-operate actively. The activities identified become external impositions rather than internalised aspirations. It is also noteworthy that higher levels of monitoring of clients, even if it is designed to give caseworkers more information, may adversely affect employment outcomes, probably for the same reasons as the imposition of activity agreements (Bloom, Hill and Riccio 2001, 40-41).

Helpfulness affects the clients' sense of the competence as well as of the positive intentions of the agency's staff. Clients are more inclined to invest time and effort in attending the agency if they feel that its staff know what they are doing and are disposed to be of assistance. In the United Kingdom in 1989-90, clients who rated the Restart interview as helpful were more likely than others to also rate it as having built their self-confidence. They were also more likely to have been placed in jobs (White and Lakey 1992, 52). In Australia, Job Network private providers that were rated as more helpful by clients were more successful in job

placement than other providers (DEWRSB 2001, 58; see also Considine 2000, 290).

Individualisation refers to the degree to which caseworkers tailor activities to the particular needs of the client in question, rather than offering 'one-size-fits-all' services. A large study of program implementation across 59 program offices covering 70,000 clients in the United States found that 'personalised client attention' was one of the most significant factors having large positive effects on employment outcomes (Bloom, Hill and Riccio 2001, 40). In the United Kingdom New Deal, one-to-one sessions between Employment Service advisers and clients during the initial Gateway phase were seen by clients as one of the best elements of the New Deal. They were seen to have helped in improving the frequency and quality of job search activity, and in increasing their confidence and motivation (Winterbotham et al. 2001). Relatedly, clients tend to be better motivated where they have the opportunity to build up a good relationship with the front-line worker, who thereby is better able to understand and act on the particular client's needs (Hasluck 2000, 47).

Client motivations to co-produce

The foregoing analysis strongly suggests that intrinsic motivations are at least as important as material ones in influencing clients' willingness to co-produce. This is most evident in their effect on the factors, such as powerlessness and the loss of self-concept, contributing to the decline of self-esteem in the long-term unemployed, which is at the core of the process of losing hope and giving up the search for work. The analysis also suggests that enhancing clients' ability to contribute is an important factor prompting their co-production.

In this context, the application of sanctions to induce long-term unemployed people to search for work will not only be ineffectual but in some cases may also be positively counterproductive. Not only will wielding the work test as a punishment fail to appeal to the basic intrinsic motivations of the jobless person, but more significantly it will also further discourage his or her job-willingness, precisely because it violates those motivations. Instead, the engendering of job-willingness calls for positive assistance aimed at redressing those factors which discourage the search for work. The active labour market strategies under examination here seem particularly well suited to this requirement.

First, they are likely to mitigate those factors which contribute to loss of self-esteem. The counselling and support which come from the interviews and follow-up contact under the various initiatives are likely to

evoke individuals' sense of their capacity to act and restore some sense of location in the social structure. Even more potent in this respect is the activity agreement. To the extent that it is formulated in a bilateral manner, it casts the client as an equal partner with the agency (thereby reducing the sense of powerlessness), and re-establishes a defined social role for the client, from which he or she can refashion missing parts of his or her self-concept. Furthermore, those labour market programs calling for joint activity among clients, such as job clubs, enhance job-seekers' self-confidence and connect them with new social networks, which also enhance self-esteem. Second, the active labour market strategies provide targeted financial assistance, such as subsidies for public transport fares and relocation, and post-placement support payments, which help reduce the cost of job search, and reduce the complexity of the co-production task. Third, programs such as job clubs improve clients' access to job market information, by enhancing clients' job search skills and reconnecting them with social networks. Fourth, the labour market programs remedy the atrophying of work habits. All do so in the general sense that they require participants to follow a schedule of attendance, for example, at a training program. Some programs do so more directly, and very effectively, by providing work experience. Finally, many labour market programs contribute to job-readiness and therefore to enhanced attractiveness to employers, by upgrading clients' skills, through training, work experience, and other methods. To that extent, they provide clients with additional hope, which fuels their job-willingness.

Thus, the strategies implicit in the successful initiatives had the potential to tap enhanced client co-production, by engendering a greater level of job-willingness and of clients' ability to contribute.

Conclusion

Co-production by long-term unemployed clients is an inescapable part of the operation of employment services and programs. It is very difficult for a government employment agency to secure jobs for the long-term jobless without them contributing some time and effort, in attending and presenting acceptably at job interviews and in working adequately once employed. It is equally difficult to enhance their job-readiness unless they engage with labour market programs. The more the clients contribute, the more effectively will desirable program outcomes, such as job placements and enhanced job-readiness, be achieved. This is a necessary corollary of the interdependence of client co-production and

organisational production in creating value in employment services and programs.

However, if co-production is necessary in addressing long-term unemployment, it is also difficult to elicit from those who are its victims. The demoralisation they have incurred as a result of a sustained failure to find work means that they lack both the willingness and the readiness to engage in client co-production, even though it is a way out of the profoundly unrewarding state of enforced joblessness. Tapping their co-production therefore requires overcoming this demoralisation, by enhancing clients' self-esteem, reconnecting them to the social structure and restoring their sense of hope and purpose. It also requires enhancement of their ability to contribute, not only by simplifying the task where possible but also by augmenting their capacities to secure jobs.

Most Western governments have sought to elicit this client contribution by installing mutual obligation regimes. In most cases, the mutual obligation is of the wrong type – if it can be called mutual at all. It entails transactional or economic exchange rather than social exchange. It involves close monitoring of the clients' performance and the application of sanctions if they fail to perform. For most clients, this engenders not active co-operation but rather grudging compliance at best, and more typically blank incomprehension or gaming behaviour. The most powerful devices for building self-esteem and purposeful activity are ones that entail positive assistance and which thereby resonate with clients' intrinsic motivations.

7

Taxpayers as Co-producers

Introduction

At first sight, income tax administration seems an unlikely arena for client co-production. For a start, the term 'client' seems inapposite for the people with whom the tax authority interacts at its business end: the taxpayers. When we think of a tax collection agency we think not of delighted customers but rather of people being compulsorily deprived of some of their income, and thereby losing rather than receiving value from the organisation.

Moreover, the term 'co-production' seems implausible in this field because the key task of collecting the taxes requires literally no involvement by the individual taxpayer. Instead, under the 'withholding' systems of most advanced industrial nations, employers take the requisite tax out of employees' pay before they receive it, and remit it to the tax authority. In this way, individual taxpayers pay their taxes without even seeing the monies in question. However, collecting the money is only one of the tasks in tax administration. The other is the job of reconciling accounts at the end of each financial year, to ensure that the right amount of tax has been paid. What makes this necessary is that taxation has become an instrument not only of revenue-gathering but also of economic and social policy, applied through a variety of deductions, concessions, subsidies, and allowances, which lead to variations in the annual tax owed which are not registered at the time of withholding. In most countries, this is operationalised through the annual submission of tax returns, leading to either a refund or an amount owing.

In America and Australia, all individual taxpayers submit annual tax returns. This requires them to perform a number of tasks: retaining receipts and other documents through the year (and for some

years afterwards in case of audit); entering information accurately and honestly into a tax return form; and lodging the form together with whatever documentation is required. Given the circumstances, the tax system cannot function without this work. Long and Swingen (1991, 642) report research which estimated that in the United States in 1988, the work done by taxpayers on individual federal income tax returns amounted to 25 times the work-hours expended by Internal Revenue Service (IRS) staff.

In Britain, the great majority of individual taxpayers do not submit annual returns. The reason is that the UK tax system is somewhat simpler, with fewer and more standardised deductions, and Her Majesty's Revenue and Customs (HMRC)³⁰ is able more easily to tally taxpayers' obligations along the way, as will be explained later. However, some individual taxpayers do submit returns because they have multiple sources of income, with differing incidences of tax obligation, each applied in isolation and calling for overall reconciliation at year-end. These taxpayers are present in all three countries. In each case, the tax authority is unable to ensure the right amount of tax is being paid overall without taxpayers lodging returns, and in the process doing some of the work of tax administration.

In this sense, therefore, tax agencies have always relied on co-production by taxpayers. But in more recent times, they have sought to enlarge the taxpayers' task, both vertically and horizontally. They have sought to deepen the extent to which taxpayers perform their traditional task of lodging returns, by prompting them to do so in a more accurate and timely manner. And they have sought to broaden this task to include *self*-assessment, most typically defined as not only providing information about income and deductions, but also calculating tax liabilities from this information and in some cases submitting payments along with returns.

Accompanying this enlargement of the taxpayers' task has been their recasting as clients or customers of the tax authority. The Inland Revenue Chairman, Sir Nick Montagu, did this explicitly by labelling taxpayers as 'customers' of the organisation (Inland Revenue 1999). So too did Commissioner Charles Rossotti in a speech to IRS executives in 1999. 'It might seem to many people that because we are in the tax administration business we are unique and cannot be compared to private companies that strive for customer satisfaction,' he said. 'This is not true, and we are not unique' (Rossotti 2005, 116). The Australian Taxation Office (ATO) has adopted a client focus strategy under the rubric of its 'Easier, cheaper and more personalised' program (ATO 2006).

Prompting these developments have been three factors, relating to outcomes, processes, and inputs respectively. The outcome factor is a perceived inadequacy in the quantity and quality of tax compliance. This has been characterised as a 'tax gap', that is, a shortfall in the amount of tax being paid. For a variety of reasons, this gap is difficult to measure (Wickerson 1994) – not least that it is hard to know what you don't know – but there is no doubt that it is substantial and probably growing. In the United States, which has, relatively speaking, the most reliable data drawn from extensive taxpayer audits, the non-compliance rate (i.e., the proportion of tax owed which was not paid) for income tax is estimated to have averaged around 17% since the 1970s (Rainey and Thompson 2007, 579). A related indicator is the shadow (or 'underground') economy, commonly defined as 'all activities which contribute to the officially calculated (or observed) gross national product but are currently unregistered' (Schneider and Enste 2000).³¹ Braithwaite et al. (2003) report that the shadow economy has generally grown as a percentage of GDP across all three countries, as it has in most societies (see also Schneider and Bajada 2005). To the extent that economic activities are unrecorded, it is more difficult for tax authorities, relying on their internal staff and systems, to bring about compliance by taxpayers with their obligations.

The process factor has been the steady growth in the workload for tax administrators, manifested in the number of tax returns to be processed, which generally were increasing in the 1980s and 1990s (ATO 1985a, 1990, 2000; IRS 1994, 2002). The input factor has been the lack of a commensurate increase, and in some cases a decrease, in staffing levels (ATO 1985a, 1990, 2000; IRS 1994, 2002). Consequently, tax assessors were experiencing heavier workloads, and able to give only cursory scrutiny, on average, to each return, reducing their capacity to detect non-compliance.

One way that authorities could have approached this situation would be to conceive of it as a problem of organisational productivity: substantially more work needed to be done with only slightly more staff. Solving this problem would have meant improving efficiency, such that each staff member was delivering a greater quantity and quality of work. Useful measures to this end could have included such things as redesigning work processes and flows, introducing new technology, reorganising to eliminate duplication, and staff training. In fact, these three tax offices have pursued these and many other organisational measures in the past two decades, in a series of a major changes, amounting to an overhaul of *internal* productive capabilities. But they

also initiated another, more fundamental change, based on a different way of conceiving of the situation, namely, a recognition that a crucial part of the work of the tax system is performed by people *external* to the organisation: the taxpayers themselves.

This chapter examines the experience of taxpayer co-production in the three countries. For each of the tax authorities, the question was not *whether* to utilise client co-production, since that was essential to at least part of its functioning. Instead, the issue was *how much* and for what specific tasks it should be utilised. The answers to this question are compared and contrasted across the three countries. The chapter then considers the evidence on how tax authorities can best elicit that contribution.

Value in tax administration

In terms of our typology, taxpayers are, of course, *obligatees*. The tax authority's job is to ensure that they comply with their obligations to contribute money to public purposes as prescribed by the law. In a sense, therefore, it could be argued that the tax administrator creates no value for the individual taxpayer. Unlike most other public agencies, the taxing authority provides no goods or services in itself to clients. It does not deliver school education, commuter trips, or police protection. Indeed, in the view of zealous advocates of free enterprise, de-regulation, and smaller government, not only do taxes not create value but they also diminish it. They constitute expropriations from the resources of private citizens and businesses. In populist and neo-conservative imagery, this is expressed most pointedly in the idea of the predatory 'tax man', arbitrarily emptying the pockets of ordinary people to fund the self-serving purposes of the government of the day.

However, this conception is ill-founded in a number of respects. First, it is based on the assumption that the only legitimate value is *private* value, that is, private consumption of goods and services. It assumes a disjunction between the taxing authority and the public purposes for which it collects revenue. However, although the tax administrator does not deliver services itself, it is responsible for garnering the resources to enable these services to be delivered by the other agencies of government. It provides what we might see as generic *public* value: the means for the creation of all the types of public value delivered by government.

Second, neither the level of taxes nor the terms on which they are collected are simply arbitrary impositions on the citizenry by an alien

expropriator. Although taxes are not provided voluntarily in the same way as the purchase price is exchanged voluntarily for a good in a private market transaction, they do have the *collective* consent of (a majority of) citizens, in that they are authorised through the democratic political process, indeed necessarily so, as the phrase ‘no taxation without representation’ connotes. The terms on which taxes are collected, enshrined in tax laws, specify limits on how much each taxpayer is required to pay (in the form of tax rates and deduction entitlements), as well as the procedures they must follow in the process of paying.

Third, in addition to providing generic public value, the tax system is itself an instrument for the realisation of specific public policies. For example, it can be used to encourage certain types of behaviour, such as investment in a particular industry or the formation of nuclear families, through the application of tax deductions. More generally, it can be used as a means of redistributing income or goods and services, both through tax rates and deductions.

Thus, the values created by tax collection and administration accrue to the citizenry as a whole, as well as to particular groups which are the targets of specific public policies, rather than to individual taxpayers as such. In broad terms, then, the tax authority creates value by ensuring that taxpayers are paying all the tax assessable under the law. This has traditionally been encapsulated in the notion of ‘protection of the revenue’. The authority must ensure that more tax is paid rather than less, but no more than is required by the tax laws. It must maximise within a constraint. This constraint is not a simple upper limit, but rather an intricately twisting and turning line comprised of the myriad of rules and exceptions in the tax legislation.

The US Internal Revenue Service

At least for the past quarter-century, the IRS has been one of the less popular institutions in American society (Rainey and Thompson 2006, 596).³² In a country whose very founding was sparked by a dispute about taxation, citizens have always displayed a degree of vigilance towards taxing authorities, even though their propensity to comply with tax obligations was relatively high by international standards, as we shall see. This wariness was heightened in the 1980s by the ‘Tax Revolt’, part of a movement to reduce the size and reach of government, engendered by political conservatives and given impetus by the Reagan administration.

Reinforcing this ideological scepticism was the fact that taxpayers’ dealings with the IRS were typically not heart-warming experiences.

Until the 1990s, the primary means by which the IRS ensured compliance – and the most common type of interaction with taxpayers – was the audit examination of returns. This was a corollary of the fact that US tax returns were submitted on the basis of self-assessment: not only did taxpayers provide information about income and deductions, but they also calculated their tax liabilities.³³ Most returns were accepted at face value, but some were subjected to an audit. Although the proportion audited has been quite small (e.g., 1.6% in 1981, and steadily lower in subsequent years), the negative impact of auditing on taxpayer perceptions of the IRS has been significant. One reason was that taxpayers mostly perceive the probability of being audited as much higher than it actually is (Roth et al. 1989, 98). Another was that the experiences of those who were audited tended to circulate, not only by word of mouth but also through tax practitioners and the media. The common account was that audits were usually inquisitorial, arbitrary, and unpleasant experiences (Rossotti 2005).

The face-to-face experience was aggravated by other aspects of tax administration. Self-assessment required taxpayers to understand the law in preparing returns, but the tax statutes were extremely complex, and the IRS was stern in its enforcement of breaches, including those based on misunderstanding. Also problematic was the IRS's information technology. Since the 1960s, computers had been introduced into the agency, but in a somewhat piecemeal fashion.³⁴ Right into the 1980s, the IRS system relied on the updating of magnetic tapes and physical conveyance between locations on a weekly basis (Rossotti 2005). There was no overall system for the whole Service, and this was reflected in poor internal communications, service delays, and inconsistencies between local offices.

In summary, the style of the IRS, reflected in its underlying culture, was very much one of enforcement. Taxpayers were treated with suspicion, and IRS functions designed to provide information or assistance to taxpayers were marginal parts of the organisation. This mistrust by the IRS was reciprocated by the taxpayers. When Republican politicians and anti-tax campaigners began to mount an offensive against the US tax system in the 1980s, they found fertile ground for their message. One result was the Tax Reform Act of 1986, designed to simplify the law, but it was only modestly successful (if at all) in doing so, and it was soon overtaken by subsequent legislative changes. Another was the Tax Systems Modernisation project, a massive computer system upgrade begun in 1988. Costing over \$4 billion, it was still not functioning in 1999, largely because requisite changes to fundamental business systems

and structures had not been made as the basis for the project (Rossotti 2005, 200–211).

In this context, IRS Commissioner Fred Goldberg began to experiment in 1991 with alternative approaches, under a broad initiative called 'Compliance 2000' – a vision for the agency until the turn of the century (Sparrow 1994, 15–16). The emphasis was on going beyond enforcement to encourage voluntary compliance. Recognising that much non-compliance is unintentional, it focused specifically on 'making life easier for conscientious taxpayers', including initiatives such as: 'tax simplification; taxpayer assistance programs; customer-oriented total quality management; community volunteer programs to help those who need it preparing their returns;...and the advent of electronic return submission...'. (Sparrow 1994, 15; see also Burger 1993; Green 1994).

Goldberg's successor, Margaret Richardson, continued this emphasis, under the rubric of 'Reinventing Government' being promoted by the Clinton administration (Richardson 1994). However, it was hamstrung by several factors. One was that it was implemented at the same time as a flurry of other change initiatives – to systems, field operations, service centres, workforce diversity, and others (Sparrow 1994, 16) – but there was inadequate strategic integration between these initiatives; they tended to compete for organisational attention and at times cut across each other. Another was that the structure of the IRS was arranged by functions, such as finance, administration, compliance, information systems, and services (Richardson 1994), and not focused on the different groups of taxpayers who were the targets of voluntary compliance initiatives. Thus an individual taxpayer might be receiving one message from a service centre and another one from an enforcement unit. Most significantly, the enforcement culture of IRS seemed resistant to the changes. Many staff expressed cynicism about their efficacy, and at best paid lip-service to them (Sparrow 1994, 23–4). Thus it appeared that while the superstructure of the IRS was being overhauled, its structural and cultural bases remained impervious, and vitiated the effects of the overhaul. The title of a 1992 report summed it up: 'Compliance 2000 – A Worthy Idea that Needs Effective Implementation' (GAO 1992). Three years after it began, a GAO study found continuing customer service problems: taxpayers had only a one in four chance of getting through to the IRS; half of the mail responses to taxpayers' inquiries were inaccurate, confusing or late; and uneven staffing at field offices led to uneven treatment between areas (Wagenbrenner 1994).

The net effect of Compliance 2000 on the tax gap was therefore minimal; if anything, it was continuing to widen. By the mid-1990s, public

attitudes to the IRS were hardening. In 1996, the American customer satisfaction index, published annually by Michigan Business, ranked the IRS lowest among the 200 companies and government agencies it covered (*J. Accountancy* April 1994). In 1997, widely reported Senate hearings heard startling stories from taxpayers about maltreatment or mishandling by IRS officials (Rainey and Thompson 2006). The upshot was the IRS Reform and Restructuring Act of 1998, which mandated major changes including: creating an IRS oversight board; establishing a five-year term for the Commissioner, while giving him or her greater flexibility in personnel decisions; reorganising the agency from its functional structure to one based on types of taxpayers; and a 'taxpayer bill of rights', backed up by a taxpayer advocate (Thorndike 2001, 775–6). Appointed to implement these changes in from 1997–2002 was Charles Rossotti, a management consultant. He continued the emphasis on voluntary compliance, and specifically on customer service. He redrew the organisation chart around groups of taxpayers: individual wage and salary-earners; small business; large and medium business; and government and non-profit entities. Thus a manager would have end-to-end responsibility for all of a given taxpayer's relations with the IRS, rather than them being fragmented between functions. He revamped business practices to better serve taxpayer needs and introduced performance measures that took account of customer satisfaction as well as productivity and compliance results. In addition, he reoriented the information technology overhaul, set up after the Tax Systems Modernisation project was finally cancelled in 1996, as a Business Systems Modernisation, under a Chief Information Officer (Rossotti 2005; Rainey and Thompson 2006).

Rossotti won plaudits for the boost he gave to customer service, and to encouraging voluntary compliance by making things easier for taxpayers (see Rainey and Thompson 2006). For instance, 'phone busy' signals at the IRS had decreased from 400 million per year in 1995 (50% of calls) to 600,000 in 2003 (Everson 2004). But these gains were made at the expense of the enforcement side of the agency's activities. The face-to-face audit rate had already begun to decline since the 1980s, but this was especially noticeable under Rossotti, falling from 0.6% in 1997 to 0.16% in 2002 (Mikesell and Birskyte 2007). The number of revenue agents (auditors), revenue officers (collectors), and criminal investigators fell by over a quarter between 1997 and 2002. The not surprising result was that during that period there was a clear decline in revenue from enforcement (i.e., from audits, collection activity, and document matching) (Everson 2004). Rossotti himself acknowledged after his time

as Commissioner that the level of enforcement was inadequate, and in particular that it jeopardised voluntary compliance (Johnson 2003).

His successor, Mark Everson, took office in 2003. Perhaps surprisingly for a Republican appointee, he sought to shift the emphasis back, adopting the vision of 'Service + Enforcement = Compliance'. He reallocated some resources into enforcement, and he slightly reorganised the structure to give more coherence to functional activities such as collections (Everson 2004; Cyr and Swanson 2007).

Thus, the tax administration pendulum had been firmly on the enforcement side at the start of the 1990s. Both Goldberg and Richardson had tried to push it towards an approach more helpful to taxpayers, but it had been held back by organisational constraints. Rossotti untangled many of these constraints, and propelled the pendulum strongly towards customer service. Everson has swung it back to more towards compliance.

The Australian Taxation Office

By contrast with America, Australia's tax return system historically was not based on self-assessment. Taxpayers provided information about income and deductions on their returns, but they did not calculate their tax liability. This was done by an army of assessors,³⁵ who would check each item on the return, looking for inconsistencies or false claims, verify the arithmetic and calculate the tax liability. An assessment would then be mailed to the taxpayer with either a cheque or a debit statement. This process had remained largely the same for decades, with the exception that computers had taken over mundane tasks such as arithmetic checking and issuing of assessment notices (ATO 1992b, 187).

By the early 1980s, the process was becoming problematic: the number of returns had steadily grown, as had their average complexity because of increasingly elaborate tax legislation, but the number of staff had not kept pace. As the workload grew, assessors were no longer able to subject each return to detailed scrutiny. Instead, they were being given daily quotas. Assessors handling salary and wage returns were expected to do 200–300 per day – or up to 400 in the case of very simple returns – taking an average of one minute per return. Business returns might take as long as four minutes each. As the ATO (1992b, 187) observed, '...assessors could do little more than "tick and flick"'. The most significant consequence of this situation was that it made it difficult to effectively detect non-compliance by taxpayers. Returns might be queried if they contained obvious inconsistencies or claims

that diverged wildly from established norms but most were simply accepted at face value.

Thus by the time Trevor Boucher was appointed Commissioner of Taxation in July 1984, Australia's taxation system was in serious trouble. The assessing process was both too much, in that it effectively duplicated work that was already being done by taxpayers, and too little, in that, in the absence of any capacity to delve behind the information as presented in returns, it could only detect glaringly obvious non-compliance. Moreover, public confidence in the integrity of the tax system had been eroded by a wave of tax avoidance and evasion schemes³⁶ during the 1970s, which were still occupying many ATO resources. In this context, the ATO began to consider alternatives to assessment. Boucher set up a review group, which found that a shift of resources from assessing to compliance work, especially increased audits, would result in a net revenue gain. It recommended the adoption of a self-assessment system (ATO 1985).

On 1 July 1986, after enabling legislation had been passed, the ATO began to move towards such a system. It simply stopped checking the information on some categories of returns prior to assessment (ATO 1986, 22). One year later, it did the same with all the remaining types of returns, including those of individuals (Form 'S') (ATO 1987, 25). It continued to calculate the tax payable and issue assessment notices, but it accepted the information in the returns at face value. Consequently, there was no change to the tasks performed by the taxpayer, who still had to provide all the information needed to make an assessment, calculate their taxable income, and lodge the return. Although the ATO called this 'self-assessment', it was at this stage really only partial self-assessment, since the taxpayer did not take the final step of calculating his or her tax liability.

At the same time, the ATO began a phased transfer of the assessing resources thus freed up to alternative means of inducing taxpayers to comply with their obligations, underpinned by a major organisational restructuring. Initially, the emphasis was on enforcement. In 1986 and 1987, assessing sections were dismantled, and 864 of their staff were gradually moved across to auditing, each first undergoing additional training. Other staff went to enquiries sections or to preparing returns for computer processing (ATO 1987, 25). A few hundred others took voluntary redundancy.

The legislative changes gave the ATO more scope for after-the-fact audits. However, the heightened risk of detection and therefore penalty also increased the onus on taxpayers to make only valid claims.

To safeguard taxpayers, the legislation enabled them to raise a question with the ATO about an issue affecting their liability at the time of submitting the return.

The ATO began to move to full self-assessment, in which the taxpayer calculated the tax liability and sent a cheque to the Tax Office, from 1990 onwards. This was applied first to companies and superannuation funds (ATO 1992b, 193). In December 1990, the Treasurer issued a statement foreshadowing a phased introduction of full self-assessment for individual taxpayers. The first would apply to taxpayers who had their returns handled by registered tax agents and commence in 1993 (Keating 1990). At that point, the ATO was strongly committed to going ahead. However, in the next three years enthusiasm steadily receded. Sometime thereafter, full self-assessment was quietly dropped.

A key factor in this decision was a concern about 'the ability of individual taxpayers to do even simple calculations' (D'Ascenzo 1997) – a concern echoed in November 1993 by a report from a parliamentary committee (JCPA 1993). Second, an Electronic Lodgment Service had been launched nationwide in 1990. Under this system, the ATO made available to tax agents software with which they could electronically transmit their clients returns, in pre-coded format. It was then a simple matter for the ATO to process the returns electronically and issue assessment notices and refunds very quickly. This system had streamlined the processing of agent-lodged returns to an even greater extent than it had for returns lodged by individual taxpayers without agents, and constituted an effective substitute for full self-assessment. Third, there was considerable opposition from tax agents, who feared that full self-assessment would adversely affect their work, in particular by compressing tax return work into an even shorter period each year than previously. For the ATO to alleviate this 'bunching' problem, it would have to stagger returns over a longer time, and consequently forgo some revenue on the deferred returns.

Thus, by 1994, self-assessment of income tax had evolved as far as it would go in Australia. It entailed taxpayers doing the work of compiling the relevant information, calculating their taxable income and lodging returns containing these details, but not actually determining their tax liabilities and paying them (or invoicing the ATO when owed a refund). The less than full nature of 'self-assessment' reflected consideration by the Tax Office of just which work should be done by the taxpayer, which by the tax agent, and which by the ATO itself.

Even so, the ATO accompanied this change with measures aimed at helping taxpayers meet their obligations through improved service,

information, and education. The Electronic Lodgment Service was a key aspect, in that it enabled dramatically faster turnaround times for returns, which for many meant refunds.³⁷ From the late 1980s, the ATO continuously upgraded its (telephone and counter) public enquiry services. It also established an advisory service, which gave advice to uncertain taxpayers about the interpretation of the tax law, and a Problem Resolution Program, designed to clear the backlog of objections and complaints. The six large state offices were decentralised into 25 regional branches by 1993, to enable more local access.

Perhaps most visible was the introduction in 1990 of the Tax Pack, a magazine-style guide to filling in the tax return, with the return form included. Distributed to every household that year, after modification it was circulated widely every year thereafter, in several community languages. This enhanced taxpayers' capacities to comply with the tax process as it was, but the ATO also sought to reduce the complexity of that process. It began as a tax law simplification project in 1990 – with some legislation in 1992. It simplified the return forms in 1987 and again in 1989. And it made paying tax assessments easier, through electronic funds transfer and centralised mailing.

Despite these initiatives, the underlying culture of the ATO still contained a large element of the enforcement mentality, fuelling public complaints in the 1990s about its dealings with taxpayers, especially business. Media reports highlighted 'poor ATO practices, bully-boy tactics and accusations of excessive and unfair use of power' (Murphy 2004, 604; see also Job and Honaker 2003). By that time, Michael Carmody had already taken over as Commissioner in 1992. He proceeded to extend the approach introduced by Boucher. In particular, he took further the notion that it was important to tailor ATO efforts to different types of taxpayers. In 1994, anticipating the IRS by several years,³⁸ he restructured the ATO into units oriented to segments of taxpaying community: large business, small business, individuals, etc. (ATO 1994). This structural change complemented specific initiatives, from which evolved a sophisticated compliance strategy, one which offered a means of breaking out of the pendulum swing between enforcement and service, and incorporating both in an integrated fashion.

The key catalyst was the Cash Economy Task Force, set up at the end of 1996 (ATO 1998). This stemmed from an increasing concern that while self-assessment and its supporting auditing and assistance systems were proving effective in eliciting compliance in the 'official' economy, it was very difficult to ensure this in the cash economy. The Task Force, comprising key Tax Office officials as well as representatives

of other government agencies, industry, welfare groups, and tax practitioners, recommended some priority initiatives such as identification of major risk areas based on ATO intelligence, undertaking industry-based and community-group-specific compliance improvement initiatives in those areas, changed financial transaction reporting rules, increasing prosecutions, a community communication program and liaison with tax agents (ATO 1997). More importantly in the longer run, it called for an extensive research program to increase understanding of the motivations, structures, and incentives driving the cash economy. The ATO provided substantial funds for a research centre at the Australian National University, and appointed its director, Dr Valerie Braithwaite, to the Task Force.

Out of all this emerged the ATO Compliance Model (ATO 1998, 22–6; Braithwaite 2003; Murphy 2004). Building on Valerie Braithwaite's work on motivational postures (Braithwaite 1995) and on Ian Ayres's and John Braithwaite's work on regulatory strategies (1992), the Model sought to address the fact that traditional enforcement techniques on their own were of limited efficacy in eliciting compliance from actors in the cash economy. It put forward an integrated approach 'to show fairness and reasonableness to those who were willing to co-operate, and focus enforcement capacity on those flagrantly ignoring their tax obligations' (Braithwaite 2003, 2). It sought to more precisely direct specific mixes of enforcement, education, and assistance at particular industry, occupational or community segments, based on an understanding of the economic, social, and psychological factors impinging on them.

Initial applications of the Model were projects focusing mostly on small businesses, such as those in the building and construction industry, restaurants (check others). In 2000, the Model was elaborated for application to large businesses, including 'a sophisticated risk management component' (Braithwaite 2003, 2).

While there were continuing concerns about inadequate compliance in particular business segments, there was also concern about the relationship with more compliant sectors. Alongside the Compliance Model, the Taxpayers Charter set out citizens' rights to be treated fairly and reasonably, have their privacy respected and receive timely and helpful advice and information (V. Braithwaite and Reinhart 2000).

More profoundly, the ATO launched a major initiative in 2002 called 'Listening to the Community', in which it undertook extensive consultation with a wide cross-section of the population about their interactions with the organisation. From these discussions emerged the ATO's 'Easier, cheaper and more personalised' program. This entailed

re-design of many of the Office's products and services so that it was easier for people to comply with their obligations, entailing less time and effort to do so, and taking more account of taxpayers' circumstances (ATO 2006). Examples included introducing on-line portals for tax agents and businesses, improved phone services, and quicker responses on enquiries.

Thus, the pendulum in Australian tax administration had swung from a situation in the early 1980s where the ATO did most of the work for the taxpayer, backed up by an enforcement style, to one in the late 1980s where it handed over some of that work to taxpayers while attempting with only partial success to encourage voluntary compliance, then back to a more balanced position from the mid-1990s which sought to integrate enforcement and assistance in the Compliance Model.

Her Majesty's Revenue and Customs

Developments in the United Kingdom during this period have been more modest, mainly because only a minority of taxpayers are required to file returns. Since the 'Pay-As-You-Earn' (PAYE) system was introduced during World War II (Daunton 2002, 179), the majority of British taxpayers – some 75% as in 2006 – have not had to file an annual return. When their American and Australian counterparts have income tax withheld by their employers, it is calculated as a proportion of their income for the pay period in question. Since their income, allowances, and deductions will vary over the year, they are not reconciled until the end of the financial year, through the tax return process. By contrast, those British taxpayers whose tax affairs are simple are classified as PAYE taxpayers, and subject to an 'exact, cumulative withholding' system (Kay and King 1990, 56). In calculating the tax due each pay period, the employer takes into account earnings, allowances, and deductions not just for the period in question, but for the whole of the tax year so far. He or she subtracts the tax paid so far from the tax owing on the cumulative income to date, to arrive at a figure for the tax owing in that period. At any point in time, the taxpayer is notionally up-to-date with his or her tax obligations.

Underpinning this process is a coding system (Kay and King 1990, 49–52). When an employee first starts work, he or she fills in a form giving details of personal circumstances such as marital status, dependants, pensions, and/or student loan deductions. The same thing happens whenever the employee's circumstances change, and at five-yearly intervals. On the basis of this information HMRC translates the

applicable allowances into a code number and issues a 'notice of coding' to the employer for that person. For instance, in the code '400L', the numerical part is 10% of the taxpayer's total allowances for the year, whereas the letter stands for marital status, in this case a single person. If the individual's circumstances change, HMRC issues a new code. The employer deducts the tax owing in the light of the code, by reference to tax tables provided by HMRC.³⁹ This system maintains a degree of privacy for the employee, since the code does not reveal the specific elements of his or her circumstances that prompt it.

While this system removes discretion from the taxpayer – and hence should limit opportunities to avoid tax – it has been criticised for its proneness to mistakes. One problem is that it relies on employees to notify changes of circumstances, which a significant number either fail to do or are tardy in doing so. Another is that it has been difficult to calculate and assess tax owing where the employee has more than one job (Bourn 2005 – see Shaw et al. 2007, 34). The computerisation of PAYE processes in 1987 was intended to alleviate these and other problems, but design shortcomings and poor staff training limited the resultant benefits. Consequently, a significant number of individuals at any one time had either under-paid or over-paid their tax, and many of them had these under- or over-payments carried forward to the next tax year.

Overall, however, it was a system which demanded minimal compliance activity on the part of the employee. The IR Commissioners in 1977 likened it to a 'vintage Rolls Royce, which the Revenue laboriously... maintains, which the employer is required to drive... and in which the taxpayer rides in reasonable comfort and for free' (Inland Revenue 1978, 28). One consequence of this was that IR officers had minimal personal contact with PAYE taxpayers, which, combined with the compliance mentality prevalent in the culture of the IR, meant there was little attention to client service.

By contrast, individuals with more complex affairs did have to submit an annual return, and they are therefore more central to this analysis. They made up about a quarter of individual taxpayers. The IR began to sharpen its focus on these people in the mid-1980s, when it instituted the 'Selective Records System'. This identified those with more complicated tax affairs – for example, those earning more than a certain amount of income from share dividends, fees for service, or interest – whose earnings were difficult to track in the PAYE system and who therefore needed to submit an annual return. At the time, they constituted some 8 million individual taxpayers (out of the 23.8 million)

(Adam and Browne 2006, 28). For this category, the IR kept individual files, whereas for PAYE taxpayers it kept only 'control cards' containing data on each of the items accounting for individuals' codes.

Each of the returns in the 'files' category was subjected to assessment by IR staff – similar in most cases to the 'tick and flick' process seen in Australia up to the mid-1980s. In this context, there was little attention to encouraging voluntary compliance – again, a function of the compliance culture in the organisation. But in the mid-1990s, the emphasis began to change. As a preliminary step, the files were rationalised. Any that entailed less than £1000 of 'other income' (i.e., besides wages and salaries) were transferred to the PAYE category. The remainder were to be the subject of a new approach.

Beginning in 1996, IR introduced Self-Assessment (SA) for file taxpayers, and accompanied it with a series of measures to prompt more accurate and timely returns. In place by 1998, it required all the relevant taxpayers to complete and return SA forms sent to them by IR. The main SA form ran to some 10 pages. An advertising campaign (featuring the voice of Sir Alec Guinness, in a notably un-'Star Wars' role) introduced it to the public (Farron et al. 1999), while at the same time a Self-Assessment Help Line and a Self-Assessment Order Line (for obtaining copies of relevant forms and instructions) provided assistance. To facilitate these changes, the information technology system was overhauled, with new capabilities compatible with SA.

Importantly, attention was paid to enlisting tax agents in furthering this initiative. A comprehensive Agent Education Program was established, involving numerous briefings together with explanatory materials. At the same time, an Electronic Lodgement service was instituted for tax agents. As in America and Australia, this had the effect of giving tax agents more privileged access to the return process, increasing their attractiveness to taxpayers. Electronic Lodgement was subsequently made available to taxpayers themselves, so that by 2003/4, one million taxpayers were using it.

Backing up these reforms were changes to IR's internal operating processes and structures. In the early 2000s, tax officers handling returns were organised into compliance teams, each responsible for a number of taxpayers, and in 2003, Complex Personal Return Units were established, enabling staff to concentrate on, and develop specific expertise in, particular types or segments of taxpayers.

In 2004, some file taxpayers were transferred to PAYE status, whereas the remainder were divided into two categories. Those with simpler affairs were required only to file a new, shorter Self-Assessment form,

whereas the remainder, with more complex cases, continued to be subject to full Self-Assessment. Thus, by 2005/6, there were 26 million PAYE taxpayers, 1.5 million short SA taxpayers, and 7.2 million full SA taxpayers.

By that time, HMRC had taken on the language of client focus, referring to taxpayers explicitly as ‘customers’, whom it sought to ‘enable’ to comply more conveniently with their obligations. Thereafter it has been seeking to revamp parts of structure and reorient the skills and culture of staff to encouraging voluntary compliance through better client service.

Assessing the performance of taxpayer co-production in the tax return process

Is co-production by taxpayers better than production by the tax authority in the tax return process? There are two aspects to be considered here: (1) effectiveness – the extent to which the right amount of revenue is paid; and (2) the impact on costs.

Effectiveness

The ideal way to ascertain the effectiveness of taxpayer co-production would be to measure its impact on the ‘tax gap’ – the difference between the tax owed under the law and the tax actually collected. For example, we could compare the gap in a regime with minimal taxpayer co-production, such as that in the United Kingdom, with one where such co-production is substantial, such as that in the United States. Alternatively, we could compare the tax gap in a regime prior to the introduction of self-assessment with that after it. But a cross-country comparison is not possible, since the only estimates with a degree of reliability are for the United States. And they don’t allow comparison between periods with differing levels of reliance on taxpayer co-production, since America has had self-assessment since 1913. In any case, they tell us only that the tax gap has remained fairly constant at around 17% since the 1970s, declining slightly to 16.3% in 2002.

A more modest alternative is simply to compare the additional revenue observed under co-production with estimates of what would have been obtained without it. Only a little research has been done on this. The ATO did an evaluation of ‘self-assessment’ in 1989, which showed a modest increase in revenue and compliance, directly attributable to the new arrangements, in their first three years of operation. The majority of the gains were due to increased voluntary compliance, which

increased income declared and reduced deductions claimed. There were also enforcement gains from increased audit activity, as well as processing improvements. These gains greatly outweighed the one negative impact: a reduction in the extra revenues obtained from amending returns on assessment. However, the overall gains were modest: just over \$600 million, or a little over 1% of total income tax revenue, per annum from 1987–88, the first year of full operation of the changes (ATO 1989b).

However, to focus only on the *increase* in revenue may be to miss other dimensions of ‘effectiveness’ in tax administration. As indicated earlier in this chapter, the purpose of tax administration is to ensure that taxpayers are paying all the taxes *assessable under the law*: it must maximise within a constraint. In this context, effectiveness can mean that taxpayers are paying the *right* amount rather than the greatest amount. For example, where taxpayers are given better information about their deduction entitlements and this leads them to claim more than they otherwise might have – leading to a reduction in revenue – this amounts to greater effectiveness.

It seems difficult, therefore, to measure the *outcomes* of taxpayer co-production. However, important insights can be gleaned from comparing the extent to which each of the three tax agencies utilises co-production, and the explicit or implicit thinking which has informed their respective practices.

To do this, it is first necessary to distinguish between different tasks in the tax return process:

- Completing the return, which involves accurately and honestly declaring all income earned and claiming deductions.
- Calculating the taxable income.
- Calculating the tax liable on that income.
- Lodging the return (or ‘returns’, in the case of exact, cumulative withholding).

Notionally, each of these tasks could be performed by the tax authority, the taxpayer, a tax agent, or the employer. Table 7.1 sets out who performs each task in the different tax regimes, including both file and PAYE taxpayers in the UK cases.

Two of these tasks – completing and lodging the return – are performed by the taxpayer (with or without a tax agent) in three of the four cases – namely, all US and Australian taxpayers, and UK file taxpayers. But they are not performed by British PAYE taxpayers, for whom,

Table 7.1 Roles of taxpayer, agent, tax authority, and/or employer in tax return process

Task	United States	Australia	United Kingdom	
			File taxpayers	PAYE taxpayers
Filing in return (declaring income, claiming deductions)	Taxpayer/agent	Taxpayer/agent	Taxpayer/agent	Employer
Lodging return	Taxpayer/agent	Taxpayer/agent	Taxpayer/agent	Employer (effectively)
Calculating taxable income	Taxpayer (formally) Taxpayer/agent/ tax authority (in practice)	Agent/tax authority	Taxpayer (formally) Taxpayer/agent/ tax authority (in practice)	Employer/tax authority
Calculating tax liability	Taxpayer (formally) Taxpayer/agent/ tax authority (in practice)	Agent/tax authority	Taxpayer (formally) Taxpayer/agent/ tax authority (in practice)	Employer/tax authority

instead, these tasks are carried out by their employers. The difference is clearly explicable by reference to the relative complexity of their respective tax affairs. In the first three cases, it is simply not possible for these tasks to be performed without the involvement of the taxpayer. The reason is that, given the elaborate rules of the tax system, each taxpayer has unique circumstances, with differing levels of income, from different sources, and claiming different deductions. Only the taxpayer has the knowledge and information about these circumstances necessary to *initiate* a tax return. The tax authority can *react* to it by checking its contents, but it cannot compile and lodge it. It is therefore not only preferable but also unavoidable that this work is performed by the taxpayer (with or without assistance from a tax agent). By contrast, British PAYE taxpayers' affairs are seen as simple enough to be done for them, by the employer acting at the behest of the codes supplied by the HMRC. Interestingly, however, this appears to be a less than perfect mechanism for ensuring that the right amount of tax is being paid. The reason is that the coding process has trouble keeping up with the circumstances

of the taxpayers, who often fail to notify HMRC when their situation changes, with the result that the code being applied by the employer is often out of date for a long time. According to the UK Comptroller and Auditor-General, around 3.8 million taxpayers had either under- or over-paid their tax in 2004; some £575 million of tax due was not paid, whereas a further £295 million had been over-paid (Bourn 2005). It may be that even for the British PAYE system, some degree of taxpayer co-production is indispensable.

The other two tasks, however, can be performed by *either* the tax authority or the taxpayer (or the employer in the case of PAYE taxpayers). Once the information inputs about income and deductions have been provided, arithmetical calculations can be applied to them by the tax officer, the taxpayer or the taxpayer's agent. Organisational production and client co-production are therefore substitutes for each other; the choice between them turns on which is likely to be more effective in performing the task.

Analysis of the formal obligations on taxpayers suggests that the three governments differ in the extent to which they seek to rely on taxpayers performing these two tasks, with Australia reserving them to the ATO while the United States and the United Kingdom appear to assign the task wholly to the taxpayer. But in practice, each has configured their procedures so that only a minority of taxpayers actually calculate taxable income and tax liability themselves. Instead, a growing proportion of returns in all three countries are handled by tax agents utilising electronic lodgement.

In Australia, as self-assessment evolved, the ATO decided *not* to allot the task of calculating the tax liability to the taxpayer, after having considered the possibility of doing so. Its reason for not going to full self-assessment was that, after prolonged investigation, it found that taxpayers were less effective performers of this task. Instead, it sought to encourage taxpayers to utilise electronic lodgement via their tax agents. With the advent of the Electronic Lodgement Service, these calculations could be done infinitely faster and more accurately by the ATO's computers than by any human, inside or outside the Tax Office. Indeed, by requiring taxpayers or their agents to enter data about incomes and deductions into electronic forms prior to lodgement, Electronic Lodgement relieved the ATO not only of a variety of inefficient paper-handling functions but also of considerable data processing work. It also enabled returns to be subjected electronically to a series of checks, in which the computer automatically identifies inconsistencies or abnormal patterns, bringing them to the attention of tax officers

for further scrutiny. Computerising the returns process also settled the issue of whether the ATO or the taxpayer should calculate the taxable income. Once the income and deductions data are entered in the electronic returns, the taxable income is automatically calculated. By 2005, some 75% of individual taxpayers were submitting their returns via tax agents who utilised electronic lodgement, and another 10% were doing it on-line themselves (ATO 2005).

In the United States and the United Kingdom, the tax authorities have also encouraged the use of tax agents and electronic lodgement for self-assessment. This has been more successful in the United States, where the proportion of individual taxpayers filing electronically has increased from 15.9% in 1997 to 57.4% in 2005. Of those filing electronically in 2005, some 63% did so via their tax agents, who therefore accounted for 36.2% of all tax returns by individuals (IRS 1997, 2005). In the United Kingdom, the HMRC started introducing electronic lodgement later, but the take-up rate has risen steadily to 35% of SA taxpayers in 2007, up from 17% in 2005. Meanwhile, use of tax agents was increasing, from 10.5% of taxpayers in 1986/87, to 16% in 1994, to 20% in 2004 – the latter figure constituting 60% of SA taxpayers (calculated from Sandford 1994, 680; and Lymer et al. 2005, 546).

That tax agents are more effective in performing the returns process is borne out by a study of a sample IRS audits done in 1997–98 by Hite and Hasseldine (2003), which found that paid-preparer returns had significantly fewer adjustments to declared income and deductions, and fewer penalty assessments, than self-prepared returns.

Thus, the issues of who should calculate taxable income and tax liability became irrelevant for those taxpayers lodging electronically; as soon as they lodged, the computer system did these calculations automatically. But at the same time, the role of the taxpayer (with or without a tax agent) in declaring income and claiming deductions became even more important. It was necessary to encourage taxpayers to co-produce the return process as effectively as possible.

Cost

The other aspect of the performance of taxpayer co-production under self-assessment concerns cost. Two types of costs are distinguishable: those to the Tax Office (known as ‘administration costs’) and those to the taxpayer (‘compliance costs’) (Rimmer and Wilson 1996, 1).

It is fairly clear that self-assessment reduces *administration* costs. In 1978, the Meade Committee in the United Kingdom estimated that administrative costs in Britain were 1.95% of revenues, whereas in

America, which had full self-assessment, they were only 0.55% (Meade 1978). Australia, where taxpayers at the time submitted annual returns for assessment by the ATO, was in-between the other two, at just over 1%. By 2002, the UK figure had come down to 1.16%, while in the United States it was 0.52% (OECD 2006). Both figures reflected some administrative efficiencies, such as new IT systems, but the much greater improvement in United Kingdom was mainly due to the introduction of self-assessment for a minority of individual taxpayers in 1996/97.

In Australia, the introduction of partial self-assessment contributed to a long-term reduction in costs per dollar of income tax collected. Initially, there was an increase in such costs, from 1.13 cents in 1986/87 to 1.36 cents in 1991/92, but this was due largely to the installation of a massive new computer system to facilitate the change, as well as an agreement with the ATO employees' union to maintain staffing levels for an interim period. Thereafter, costs of collection fell steadily, to below 0.9 cents in 1999/2000 (ATO Annual Reports, 1985/86 to 1993/94, 2000/01).

However, while taxpayer co-production tends to reduce administrative costs, it is not surprising that it also tends to mean higher *compliance* costs for taxpayers. As the leading scholar of tax compliance costs, Cedric Sandford, put it, '...there is a great deal of evidence to suggest that, overall, countries with self-assessment have higher compliance costs...' (Sandford 1994, 678). Strictly comparable data are not available across all three countries, but a broad comparison shows the contrast between Britain and America. In the United Kingdom in 1986/87, compliance costs to individuals constituted some 2.21% of tax revenues (Sandford 1994, 679), whereas in the United States in 1982, they were between 5% and 7% (Slemrod and Sorum 1984).⁴⁰ There are no data comparing compliance costs before the introduction of self-assessment with those after it.

Self-assessment appears to impose two types of additional cost on taxpayers, over and above the compliance costs of traditional tax returns processes (e.g., tax agents' fees, time filling in paper-work, dealings with the tax authority). One is uncertainty – a concern by taxpayers that they are responsible for getting their returns right and could be penalised in subsequent audits for not doing so but lack information and expertise to ensure they do. This appears to have fuelled the increased usage of tax agents, observable since the introduction of 'self-assessment' in Australia and the United Kingdom. The other cost is record-keeping – the obligation to keep documentary evidence of

income and deductions for a multi-year period after the return for any subsequent audit.

Thus, there appears to be an inverse relationship between administrative costs and compliance costs. The question is whether self-assessment leads to a net reduction in costs overall. The scant available evidence suggests that in itself it does not (Sandford 1994). On the other hand, self-assessment fits conveniently with electronic lodgement and payment systems, which do considerably reduce compliance costs. Moreover, it dovetails with measures to make tax compliance easier, such as simpler return forms, taxpayer help lines, and tax law simplification. When introduced as part of a package of reforms, taxpayer co-production in the form of self-assessment can reduce costs. More generally, even if it entails a slight increase in costs, those costs may be offset by the increased extent to which the right amount of tax is paid.

These observations are relevant for only part of the tax return process, namely, the calculation of taxable income and tax liabilities. For those tasks, production by the tax authority and co-production by the taxpayer are potential substitutes for each other, and the issue turns on the relative costs and benefits of using one or the other, which in turn is largely a function of who has greater capability to perform the task. The practical strategies pursued by the three tax authorities have the effect of minimising the role played by the taxpayer, and instead having their tasks performed by tax agents and/or electronic lodgement systems. But, where tax affairs are more than modestly complex, the other parts of the return process – completing the return form and lodging it – depend inescapably on co-production by the taxpayer. In these circumstances, the question is not whether to enlist co-production, but how best to do it.

Eliciting taxpayer co-production

We have already established that compliance by taxpayers with the returns process is necessarily a matter of co-production by them, given the active and affirmative nature of tax obligations. This means that we can learn a lot about how to elicit taxpayer co-production from examining why taxpayers comply with their obligations. The reasons bear many similarities with those relating to legal compliance and regulation, discussed in Chapter 3.⁴¹ Some of them concern people's *willingness* to pay taxes, whereas others consider their *ability* to do so (Long and Swingen 1991). This section examines the evidence about both

these factors. The US system has been the most studied of our three countries in this respect, and the United Kingdom the least, but sufficiently to draw some inferences. Table 7.2 sets out the instruments and how they affect particular motivations or capacities.

Sanctions

Probably the most common approach to tax compliance focuses on how sanctions affect taxpayers' material self-interest. One version of this derives from microeconomics (Alm et al. 1992, 21; Carroll 1992, 45–6; Witte and Woodbury 1985, 133–4; Cowell 1990, ch. 4). Based on expected utility theory, it was first applied to tax evasion by Allingham and Sandmo (1972; see also Sandmo 2005). They posited that taxpayers rationally weigh the potential benefits of evasion (tax savings) against the potential costs, which are a function of (1) the risk of detection and (2) the likely severity of the punishment for non-compliance. Tax evaders face either evasion that is detected and penalised, or undetected evasion. As Witte and Woodbury (1983, 134) put it, 'The individual's satisfaction with each outcome depends solely on how much income is left after taxes and penalties are paid.' An analogous approach focuses on taxpayers' self-interest in terms of formal legal sanctions, specifically, on their fear of punishment for non-compliance (Roth et al. 1989, 92–112).

There are two basic methods of increasing the risk of detection of violations. The first is to increase the rate at which taxpayers are audited, not only to better detect actual non-compliers and deter them from future evasion ('specific deterrence'), but also to deter other potential non-compliers ('general deterrence'). In fact, the research indicates that the impact of *specific* deterrence is quite complicated. Although some studies show that those who have been audited previously tend to be less compliant (Roth et al. 1989, 94), others show that being audited has mixed effects on *non-compliers*. On the one hand, it heightens their awareness of the possibility of being sanctioned, but on the other hand, it decreases their perceived probability of being re-audited (Roth et al. 1989, 95; Martinez-Vazquez and Rider 2005; Alm and McKee 2006). One way to overcome this problem is to subject a large proportion of taxpayers to audits (Klepper and Nagin 1989, 137). However, leaving aside its high administrative cost, this approach tends to weaken the commitment of *compliant* taxpayers to comply. Especially if they experience the audit process as arbitrary, intrusive, or in some other way unfair, it is likely to trigger resentment on their part, leading to more opportunistic behaviour (Roth et al.

1989, 95; Elffers 1991, 211; Braithwaite et al. 2005; see also section under 'Procedural Fairness').

At the same time, the *general* deterrence effect on potential non-compliers is more positively supported by the evidence: higher audit rates lead to higher levels of compliance (Witte and Woodbury 1983, 141; Roth et al. 1989, 102; Alm 1999; Trivedi et al. 2003; Alm et al. 2004; Dubin 2004; Everson 2004, 2005). Moreover, taxpayers tend to over-estimate significantly the likelihood of being audited, reinforcing this effect (Roth et al. 1989, 98). Consequently, while increasing the actual rate of auditing may be relatively ineffective and also costly for the tax authority, it may be fruitful to enhance the *perceived* risk of being audited, for example, by utilising spot checks of unreported transactions, or undertaking high-visibility prosecutions of selected evaders (Blumstein 1983, 170–1).

The general deterrence effect of audits in the United States is strongly supported by an IRS study in 1996, which found that the average indirect dollar yield of an audit examination was more than 11 times the direct yield (Plumley 1996; see also Plumley 2002). A study of UK taxpayers by Hasseldine et al. (2005) also found that audits have a high impact on compliance (see also Farron et al. 1999, 295).

Heightening the 'visibility' of income-producing transactions to tax authorities is a second method of increasing the risk of detection. Feffer et al. (1983, 295) argued that 'compliance increases as transactions become more visible – that is, as they leave records in the hands of third parties or the IRS from which the fact of the transactions can be detected'. In descending order of visibility, income can (1) be subject to withholding (such as PAYE tax); (2) be subject to mandatory information reporting to the tax authorities (such as bank interest); (3) appear in other taxpayers' auditable records; or (4) be in cash form. A number of studies affirm that the higher the visibility of the income, the greater the level of compliance (Kagan 1989; Roth et al. 1989, 106–9; Elffers 1991, 214; Plumley 1996; Andreoni et al. 1998; Bloomquist 2003; Erard and Ho 2003; see also Hood 1985, 24).

By contrast, the impact on compliance of differing levels of penalty is limited, and not as great as that of increasing the risk of detection (Klepper and Nagin 1989, 135; Roth et al. 1989, 110; Spicer and Lundstedt 1976, 300; Wallschutzky 1988, 33, 45; Witte and Woodbury 1985, 9). However, an increase in penalties has a more significant effect when the perceived probability of detection is above a certain threshold (Roth et al. 1989, 110–111), underscoring the multiplicative nature of expected utility. The *type* of penalty is also important: Dubin (2004) found that

Table 7.2 Impacts of different tax authority instruments on taxpayer propensity to comply

Tax authority instruments	Impact on willingness to comply				Impact on ability to comply
	Via material self-interest	Via intrinsic motivations	Via sociality	Via expressive values	
Auditing	? (conflicting evidence)	-	-	↓ (provokes resentment)	-
Heightening transaction visibility	↑ (higher perceived risk of detection)	-	-	-	-
Increasing penalty amounts	↑ slightly (higher perceived cost of non-compliance)	-	-	↓ (provokes resentment)	-
Increasing penalty visibility	↓ (greater awareness of others' evasion)	-	↑ (shame)	Mostly ↑ (↑ perceived distrib'l equity, but also ↑ resentment)	-
Positive monetary rewards (e.g., faster refunds)	↑ (higher perceived benefit of compliance)	-	-	-	-
Mobilising third parties	-	-	↑ (approval of compliance)	-	-
Promoting value provided by govt	-	-	-	↑ (higher perceived fiscal/exchange equity)	-
Providing info and assistance/ Treating taxpayers fairly	↑ (reduced compliance costs)	↑ (increased sense of self-competence, self-esteem)	-	↑ (increased perceived procedural fairness)	↑ (greater ease of compliance)
Simpler compliance processes	↑ (reduced compliance costs)	-	-	↑ (increased perceived procedural fairness)	↑ (less difficulty in complying)

the threat of incarceration had a greater positive impact on taxpayer compliance than did that of fines. Moreover, the impact of sanctions varied according to the level of moral reasoning (the extent to which people are motivated by a concern for others rather being purely self-interested). Those with low moral reasoning are more inclined to take notice of the threat of punishment than others (Kaplan et al. 1997).

In summary, only some of the key elements of the expected utility model (and of legal sanctions theories) seem to work in practice. Furthermore, in a more general sense expected utility cannot explain all tax compliance – or even most of it. As Alm et al. argue:

The percentage of tax returns that are subject to detailed audit is quite small in most countries, and penalties are seldom more than a fraction of unpaid taxes.... [A] purely economic analysis of the evasion gamble suggests that most individuals would evade if they were purely rational, since it is unlikely that cheaters would be caught and penalised. However, compliance in many countries remains relatively high. Additional factors must play a role – perhaps a dominant one – in tax compliance. (1992, 313)

This suggests that other factors such as intrinsic motivations, sociality, and moral values also help account for taxpayer compliance, underscoring the role of instruments other than sanctions. In this respect, it is interesting that sanctions seem to have an important positive impact via sociality and moral values. First, increasing the visibility of prosecutions and penalties applied can deter non-compliance not only through the general deterrence effect, but also, and perhaps as importantly, through a fear of ‘informal social sanctions’, such as the loss of respect of family and friends. As Klepper and Nagin conclude from a comparison of the criminal deterrence literature with empirical tax compliance research, ‘...it isn’t formal sanctions but rather the stigma associated with being identified publicly as a criminal that deters crime’ – and that deters non-compliance with tax laws (1989, 136, 144; see also the evidence in Grasmick and Scott 1982; Cialdini 1989, 205; Gordon 1989). Indeed, the fact noted above that the perceived probability of detection is a more powerful deterrent to tax evasion than the severity of formal sanctions may be explicable by the salience of informal (social) sanctions. Roth et al. (1989, 91–2) qualify this assessment, concluding from a survey of empirical research that the severity of ‘social condemnation’ varies with the dollar amount of taxes evaded. Where the amount is high, social stigmatisation can be an important deterrent. Thus, one way of tapping

sociality to enhance compliance may be to apply exemplary punishments to serious tax evaders, with the emphasis on the visibility of the crime rather than the severity of the sanction (Klepper and Nagin 1989, 136).

Second, the research evidence shows that sanctions provide people with an assurance of the fairness of the tax system, especially in terms of distributive justice. Where people feel others are not contributing their share of tax, or do not trust them to do so, their own tax commitment is lessened (Vogel 1974, 512; Spicer and Lundstedt 1976, 302; Yankelovich et al. 1984, cited in Roth et al. 1989, 131; Sheffrin and Triest 1992, 205; Smith 1992, 245; Scholz 1994, 37; Agapitos and Mavraganis 1995; Bishop et al. 2000). As Levi (1988, 54) has put it: 'The importance of deterrence is that it persuades taxpayers that others are being compelled to pay their share.' Applying enforcement firmly and visibly against those who seek to evade their tax obligations therefore taps into taxpayers' attachment to distributive justice. In this sense, sanctions may be as effective in resonating with purposive commitment as they are in mobilising material self-interest (Elffers 1991, 217).

Positive monetary rewards

The little available evidence suggests that taxpayers' willingness to behave consistently with the law at tax return time will depend on whether they will have to pay extra tax or receive a refund, and how they frame those eventualities. Although a refund actually means the government has been receiving an interest-free loan of PAYE tax instalments throughout the year (Carroll 1992, 49), most taxpayers regard it as a positive gain, because they are comparing it with their situation immediately before the return was submitted (Smith and Kinsey 1987, 648). The introduction of electronic lodgement services has facilitated a considerable improvement in turnaround times for tax returns, leading to speedier refunds, in all three countries (James and Wallschutzky 1993).⁴²

Mobilising third parties

No taxpayer lives in a vacuum. Each of them is surrounded by formal and informal social milieux which have some effect on their attitudes and behaviour – not least in respect of tax compliance. The most salient motivation in this case is sociality.

The consensus is that sociality is more salient in explaining the degree of *non*-compliance than of compliance. Taxpayers who have non-compliant friends, relatives, neighbours, or acquaintances may be influenced to evade taxes, as several surveys have found (Spicer and Lundstedt 1976, 300–1; Witte and Woodbury 1985, 9; Jackson and

Milliron 1986, 136; Roth et al. 1989, 112–13; see also Cialdini 1989, 213). Davis et al. (2003) contend on the basis of agent-based modelling research that such peer influence can lead to steep surges or ‘epidemics’ of non-compliant behaviour, where evasion norms reach a ‘critical mass’ (see also Chang and Lai 2004; Braithwaite 2005).

The implication is that compliance could be enhanced by reinforcing solidary norms about the desirability of paying taxes, as Moore (1983, 284–8) suggests. Especially significant here is the role of professional tax advisers, who have particular influence based on their expertise. Individual taxpayers use tax agents not so much to save time as to cope with complexity (Christian et al. 1993), suggesting that they tend to be subject to the expert authority of their advisers. This means that tax agents may have some impact on tax compliance, for good or ill. Interestingly, the evidence suggests that in Australia, tax agents tend to enhance the level of compliance in the return process, whereas in America they have, at least in the past, tended to undermine it (Nagin 1990; Erard 1993; Bird 1994; Hite 2002). Either way, it suggests that it may be worthwhile for tax authorities to devote time and energy to winning the support of tax advisers.

Perhaps most importantly, sociality may have a compounding effect on taxpayer compliance (or non-compliance), in reinforcing other factors which promote it. The more people are induced to comply, the fewer non-compliant acquaintances any given taxpayer knows, and therefore the more likely he or she is to comply.

Appealing to moral values

The research evidence shows that people’s tax compliance is significantly influenced by their *moral values* and commitments, most importantly by the extent to which they have an internalised obligation to obey the law, which affects their willingness to comply with tax laws in particular. Citizens may have a desire to comply with the law for a number of reasons.

One kind of reason is instrumental: ‘individuals may pay taxes because they value the goods provided by government and they recognise that their payments may be necessary both to help finance the goods and to get others to contribute’ (Alm et al. 1992, 313; see also Slemrod 1998; MacManus 1999; Erard and Feinstein 1994, 17–18; Mason and Calvin 1984). Some of this work, variously termed exchange equity or fiscal exchange theory, sees this in terms of a collective exchange process. As Spicer and Lundstedt put it

A taxpayer may be seen as exchanging purchasing power in the market in return for government service. If this is the case, then it seems

reasonable to suppose that a taxpayer's behavior may be affected by his satisfaction or lack of satisfaction with his terms of trade with government. (1976, 297)

Other writers focus on the *normative value* of the 'important collective purposes' achieved through taxation (Schwartz and Orleans 1967; Moore 1983, 289). There is considerable empirical support for the theory that taxpayer compliance is motivated by the perceived value provided by government (Schwartz and Orleans 1967; Spicer and Lundstedt 1976, 300–3; Spicer and Becker 1980; Lewis 1982, 59; Thurman et al. 1984; Alm, Jackson, and McKee 1992, 321; Alm, McClelland, and Schulze 1992, 32–4; Sheffrin and Triest; 1992, 204–6; Scholz 1994, 30–2; Trivedi et al. 2003; see also the literature review by Roth et al. 1989, 127–8). An interesting finding in this respect in the United States is that while public satisfaction with the IRS was relatively low (below 40%) at the end of the 1990s, and had declined since 1980, satisfaction with government agencies in general was considerably higher (around 60%) (IRS 2000). If taxpayers are more likely to comply if they perceive that government is providing them with substantive value, then it makes sense to enhance awareness of the value provided by government, especially if citizens are relatively ignorant of government programs and their purposes. It also makes sense to seek to heighten the level of trust that taxpayers repose in government (Torgler and Murphy 2005), since their expectation of the value they will receive from government is a function not only of the level of benefit they perceive, but also of whether they believe government will deliver that benefit (Feld and Frey 2002).

Empirical research indicates that the perceived value from government – and the compliance it prompts – is also affected by taxpayers' perceptions of *distributive justice* – that is, of the relative tax burdens borne by different taxpayers (Jackson and Milliron 1986, 137). There are two aspects of this in taxation (Roth et al. 1989, 127; Erard and Feinstein 1994, 17–18). One is vertical equity: how equitably the income tax scales allocate tax burdens among different groups. The other is horizontal equity: how consistently the tax administration ensures that different individuals pay the tax to which they are liable, and that they do not escape their obligations through evasion or avoidance.

Taxpayer perceptions of the *vertical equity* of the tax system appear to have some (negative) impact on the acceptability of under-reporting income (Roth et al. 1989, 128; Smith 1992, 245; Hite 1997) – although it is likely that taxpayers have imperfect knowledge of the actual overall incidence of marginal taxes (Sheffrin 1993). An illuminating example

of this, in respect of a different type of tax was the attempt by the Thatcher government in 1989–90 to introduce a poll tax, which was effectively impossible to implement because of a widespread perception that it disproportionately affected those on lower incomes, leading to violent protests and civil disobedience (Besley et al. 1997). However, the obvious policy prescription for enhancing vertical equity – restructuring tax rates more equitably – is beset by numerous practical difficulties (see Graetz and Wilde 1985) and is in any case outside the remit of the tax authority.

Other reasons are deontological rather than instrumental in nature: as an abundance of research evidence shows, one reason people comply with the tax law is either because they view the legal authority as having a legitimate right to dictate their behaviour, or because they want to behave consistently with their own sense of personal morality (Torgler and Murphy 2005; Bobek and Hatfield 2003; Blumenthal et al. 2001; Hite 1997; Scholz 1994, 13–14; Reckers et al. 1994; Tyler 1990, 25; Klepper and Nagin 1989, 144; Roth et al. 1989, 119–20; Jackson and Milliron 1986, 137; but see McGraw and Scholz 1991).

Closely related to this orientation is a concern about *procedural fairness*. Whereas perceived public benefits and distributive justice relate to taxpayers' judgements about the outcomes of the tax system, procedural justice relates to their perceptions of its processes. There is strong evidence that citizens are more likely to comply with legal obligations in general if they feel that they have been treated fairly by the government agency imposing them, even if those obligations are not in their own self-interest (Kidder and McEwen 1989, 53; Roth et al. 1989, 129; Tyler 1990, 162–3). The limited available research indicates that the same applies to tax obligations in particular. In the previously cited study, Smith found that 'procedural fairness' ranked with the 'perceived likelihood that other cheaters would be caught' as the strongest factor promoting compliance (1992, 245; see also Bishop et al. 2000; Worsham 1996).

Framing

The specific ways in which each of these instruments resonates with taxpayers' motivations depends very much on how tax authorities *frame* tax obligations. In the most general sense, as Carroll (1992, 48) points out

...taxpayers who view the tax process as 'compliance with the law' would have a very different view than those who use the analogy of

'payment for services', and these would, in turn, differ from those who see taxpaying as 'giving to the common good'.⁴³

In practical terms, this means that some types of enforcement are less likely to corrode the goodwill of taxpayers than others. Specifically, withholding of taxes is clinically effective in transferring monies from taxpayers to the government, while at the same time it does not provoke resentment from taxpayers in the same way as post-hoc enforcement methods such as auditing and penalties.

Treating taxpayers respectfully/making it easier to comply

All of these measures assume that all that is necessary for taxpayers to comply with their legal obligations is that they be willing to do so. But for some taxpayers, the key inhibitor of their compliance is not their lack of willingness but their lack of *ability* to comply, relative to the requirements of the tax system. Particular taxpayers' cognitive capacity or educational level may be such that they find it difficult to clearly understand the tax laws, accurately determine their tax liabilities, or easily follow lodgement processes, resulting in either greater or lesser compliance (Carroll 1989). For example, basically honest taxpayers may misunderstand their legal entitlements and under-estimate expense deductions, leading to over-compliance. Alternatively, they may find the tax return procedures so dauntingly complex that they fail to lodge a return, resulting in under-compliance (Jackson and Milliron 1986, 138–9; Roth et al. 1989, 118; Slemrod 1989; Nagin 1990; Long and Swingen 1991, 649–50; Slemrod 1992; Erard and Ho 2003).

Two types of measures can address this problem. One addresses the *taxpayers*, by providing them with information or education so that they are more capable of dealing with a given set of obligations. The other addresses the *obligations* themselves, for example, by simplifying tax laws, improving accessibility or providing more convenient forms, and lodging processes. Both have loomed large in tax authorities' efforts to enhance compliance. In particular, they have been key features of a heightened focus on client service, involving measures such as taxpayers charters, simplifying laws and regulations, less complex forms, helplines, improved phone answering, electronic lodgement and payment services, 'how-to' pamphlets and on-line guides, communications in languages other than English, and speedier transaction turnaround times, as well as efforts to enhance procedural fairness through taxpayer advocacy services and appeals processes (Nagin 1990; Sabine 1991; Slemrod 1992; Brand 1996; Plumley and Steuerle 2004; Berger 2005).

These measures have an impact on compliance via several motivators. First, by reducing the cost of compliance – the time and money they need to devote to funds transfer, record-keeping, and form-filling – they benefit taxpayers in terms of their material self-interest. Second, they appeal to taxpayers' intrinsic motivations, such as needs for self-competence or self-esteem (see Harvey and McCrohan 1988), in that they impart a greater sense of ownership of, and a degree of task identity in, the return process.

Third, they appeal to taxpayers' moral values, especially in relation to procedural justice. Smith's study found that responsive service (defined as offering 'more help and assistance to taxpayers') had a strong positive effect on perceived procedural fairness, through which its impact on compliance is mediated almost entirely (1992, 242; see also Hasseldine et al. 2005; Feld and Frey 2005; Plumley 1996, 37; Bordignon 1993; Elffers 1991, 218–19; Harvey and McCrohan 1988, 146). In Australia, Braithwaite and Reinhart (2000) found in a large survey that those taxpayers who evaluated the ATO positively against the Taxpayers' Charter rated it highest in terms of trustworthiness and legitimacy. The impact of procedural fairness on taxpayer behaviour shows up even more strongly when we look at *non-compliance*. The exercise of punitive, arbitrary, or inflexible authority by the tax agency contributes demonstrably to taxpayer resistance, avoidance, and evasion (Schwartz and Orleans 1967, 298; Strumpel 1969, 29–32; see also Schmolders 1970, 301–3; Spicer and Lundstedt 1976, 300; Frey 1992, 176), whereas respectful and responsive treatment leads to more compliant attitudes (Smith and Stalans 1991, 38–43).

Integrating compliance instruments

The discussion so far has looked at each of the main types of taxpayer motivators and facilitators separately. The clear message is that no single motivation accounts for taxpayer compliance, nor does any one instrument elicit it. The obvious conclusion is that tax authorities need to utilise a combination of instruments to optimise taxpayer co-production. In this perspective, their task is to employ the right mix of these instruments, to maximise the amount of tax paid while minimising the costs of securing compliance (Levi 1988; Scholz 2003).

However, what constitutes the 'right' mix is a complex question, not least because there is no single formula that will motivate all taxpayers equally. The reason is that taxpayers vary in their motivations; to use Valerie Braithwaite's term, they have different 'compliance postures' (2003). Some will be more influenced by the threat of sanctions,

whereas others will respond more positively to persuasion and assistance, and some will be amenable to a mixture of these motivators.

Herein lies an inherent problem in combining instruments: each tends to elicit compliance from part of the taxpaying population, but tends to undermine it with other parts. The use of enforcement types of instruments, such as auditing, penalties, and exemplary punishments, resonates in conflicting ways with different types of motivations of taxpayers. On the one hand, enforcement operates through material self-interest to induce potential non-compliers to obey the tax laws. Moreover, it resonates with taxpayers' concern for horizontal distributional equity in that it reassures them that others are paying their fair share. On the other hand, enforcement operates through expressive values to generate resentment of the tax system for its perceived lack of procedural fairness, which can translate into reluctance to comply (Frey 1997; Feld and Frey 2002, 2005; Braithwaite et al. 2005; Murphy 2005).

At the same time, exclusive reliance on taxpayers' sense of social or moral obligation, or on making it easier for them to comply, is likely to leave tax authorities vulnerable to opportunistic behaviour by those who are wilfully non-compliant, who will take advantage of the laxer regime these instruments imply to avoid meeting their obligations.

The obvious solution is for tax administrators to treat each segment differently, directing enforcement against non-compliers and moral appeals and assistance towards the compliant. But this has its own dilemmas. It is difficult to know in advance which taxpayers are compliant and which are non-compliant. Moreover, to treat different groups of taxpayers differently is to transgress the perceived impartiality of our legal system, which is supposed to be one of 'laws not men', applying equally to all (Hood 1986).

All three of our tax authorities have sought to grapple with this dilemma to at least some extent by the adoption of 'responsive regulation' (Ayres and Braithwaite 1992). This is an interactive and iterative approach, which involves seeking to target varying sanctions, rewards, and appeals at different groups of taxpayers on the basis of their previous behaviour. As foreshadowed earlier, the ATO has the most developed framework, in the form of its Compliance Model (see Figure 7.1). Drawing on the enforcement pyramid outlined in Chapter 3, it embodies a hierarchy of regulatory strategies, ranging from education and assistance at the bottom to prosecution at the top – each corresponding with a particular compliance posture. The compliance postures, from more compliant to less compliant, are (1) 'commitment', which reflects a

sense of moral duty to pay tax for the collective good; (2) ‘capitulation’, entailing acceptance rather than embrace of tax obligations; (3) ‘resistance’, involving suspicion of tax office intentions and an inclination to be vigilant and to contest the office’s decisions where possible; and (4) ‘disengagement’, wherein the tax regime has lost legitimacy to the extent that the taxpayer is disconnected and seeks to keep a distance from tax processes. In the first instance, with a given taxpayer, the ATO employs education and assistance and thereby relies on self-regulation. Thereafter, it reciprocates each taxpayer’s behaviour in the previous period (Braithwaite 2003; Murphy 2004). Thus, if the taxpayer has engaged in non-compliant behaviour, then the ATO will move up the hierarchy to examinations and reviews of taxpayers’ records. If the taxpayer complies, then the ATO reverts to the bottom rung of education and assistance again. If, however, the taxpayer is still not compliant, the ATO escalates to audits, with or without penalty, and ultimately to prosecution. Thus, taxpayers select themselves for differential treatment by the degree of compliance they display. To target their efforts more effectively at identifying likely non-compliers, the ATO, the IRS, and to a certain extent the HMRC have sought to gain a more precise understanding of different groups in the taxable population, based on

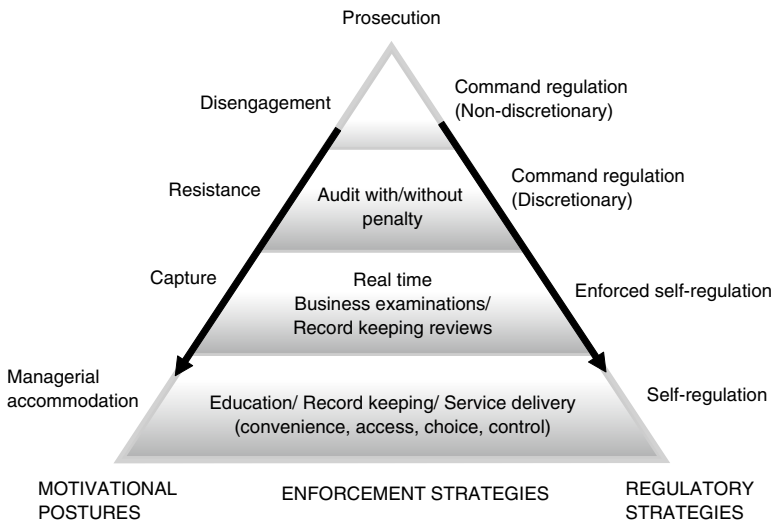


Figure 7.1 The ATO’s compliance model

Source: ATO 1998, p. 58. Copyright Commonwealth of Australia, reproduced by permission.

more systematic analysis of their economic, social, demographic, occupational, and other characteristics.

Eliciting co-production: The cases compared

Nearly all the evidence adduced so far has been both local and static; each study has been confined to a single country, and constitutes a snapshot at a point in time. How do the three countries compare in terms of their taxpayers willingness to comply, have they changed over time, and what explains the variations? Little research has been carried out on these questions, but some useful insights come from the World Values Survey, a large-sample, multi-disciplinary, multi-country periodic survey of attitudes and beliefs which has been conducted in several waves since 1981. One question which has been included in the survey since it began is about the extent to which respondents feel that it is justifiable to cheat on taxes 'if you have the chance'. This is a reasonable indicator of what is sometimes called 'tax morale', that is, willingness to comply (Torgler and Murphy 2005). Table 7.3 sets out the results for all the surveys conducted in the three countries.

Three points are especially noteworthy. First, there is no discernible positive relationship between the use of sanctions and tax morale, both across countries and across time. For example, the United States has the highest level of tax morale but has had a low level of auditing. Moreover, changes in enforcement intensity seem to have no impact on willingness to comply: the percentage of taxpayers subject to audit has trended downwards in all three countries, whereas for most of the period in question, tax morale has if anything increased.

Another noteworthy fact is that Australia has exhibited a significant growth in tax morale between 1981 and 1995, from 45% to 62%. Torgler and Murphy (2005) put forward three reasons why this may have occurred. One is that in 1981, the Australian tax system was suffering a

Table 7.3 Tax morale in three countries: 1981–1999*

Year	United States	Australia	Great Britain
1981	–	45.4	53.3
1982	65.9	–	–
1990	68.2	–	53.4
1995	74.3	62.2	–
1999	63.2	–	55.5

* % answering 'Never justifiable' to the question of whether it is justifiable to cheat on taxes if you have the chance.⁴⁴

legitimacy crisis, in that tax evasion by wealthier individuals and many businesses was rife, most notoriously in what were known as 'bottom of the harbour' schemes, in which company profits were cleaned out before taxation, and the company shells made to 'disappear' (Baird 1991). Consequently, many Australians perceived that the 'fat cats' were not paying their fair share, and felt less committed to doing so themselves (Levi 1988). In 1985, however, the government legislated to make these tax evasion activities more difficult and devoted investigative attention to cracking down on them, sometimes quite visibly (Baird 1991). According to one survey, the proportion of taxpayers agreeing 'that the ATO is doing a poor job in catching tax cheats' declined from 58% in 1986 to 42% in 1990, while the proportion strongly agreeing that the ATO 'spends too much time clamping down on ordinary people and lets the real tax cheats get away' declined from 59% to 41% over the same period (REARK 1987, 1990).

A second reason is that between 1981 and 1995, the ATO became more client focused (Torgler and Murphy 2005). Certainly, it was one of the first tax offices to reorganise its structure to align with client groups (such as individual taxpayers, small businesses, large businesses, etc.). It also reoriented its process and systems to enhance responsiveness, through such devices as the Tax Pack, public enquiry programs, a problem resolution unit, Electronic Lodgement, and simplified tax law. These changes could have been expected to increase positive dispositions towards the ATO, or at least to have mitigated negative ones, and more generally to have enhanced trust. However, the ATO's own survey cited in the previous paragraph showed that while taxpayers felt that ATO staff were friendlier and more helpful in 1990 than in 1986, there was no improvement in ease and speed of obtaining information from the ATO, nor of understanding it once obtained (REARK 1990, 6). This may have been due to problems in bedding in IT systems (Baird 1991).

The other reason is that between 1981 and 1989, the system of self-assessment (albeit only partial) was introduced (Torgler and Murphy 2005). Self-assessment is a self-regulatory system, which regulatory scholars argue is likely to improve voluntary compliance, because with its emphasis on initially providing assistance, information, and persuasion to taxpayers and relying on their honesty, it enhances their trust in tax offices in the long run.

Extending Torgler and Murphy's proposition further, it can also be argued that self-assessment has a positive impact on voluntary compliance via the mechanisms of intrinsic and social motivations. It

resonates with intrinsic motivations to the extent that it displays respect for taxpayers' sense of competence and self-esteem, while its emphasis on more frequent and personal interactions between taxpayers and tax office staff is likely to increase the level of sociality between them.

The third noteworthy aspect of Table 7.3 is that the United States has historically had a significantly higher level of tax morale than the other two countries. This seems counter-intuitive, for a country whose very founding entailed a popular assertion that certain circumstances, such as the lack of political representation, justified the non-payment of taxes, and which has since manifested a ruggedly individualistic apparent antipathy to taxation. But the finding is borne out by more recent data from a quite separate study, which showed that US taxpayers' propensity to cheat on their taxes in 2001 was significantly lower than that of Australians (Bobek et al. 2007).

One possible explanation is that the United States has had self-assessment since its income tax was introduced in 1913. This has made the long-standing historical relationship between taxpayers and tax offices in the United States quite different from that in Australia or Britain. US taxpayers have a role in which they have been more responsible for their own tax affairs than their counterparts in the other countries and consequently are likely to have had a particular sense of ownership of the return process. They have to do it themselves rather than have it done to them by the tax office. Despite the fact that the IRS has generally been regarded with antipathy by citizens, it is its processes which have been most in question, not the outcome for which it is responsible: that people pay their taxes. Moreover, to the extent that it is rigorous, it underscores the equity assurance that is so important to taxpayers: it seems to be directing its efforts to guaranteeing that other taxpayers are paying their fair share.

At the same time – and surprisingly – the World Values Survey shows that US citizens have a higher regard for public services than those of the other two countries, suggesting that the perception of the value derived from government is a factor. In the United States, those expressing 'a great deal' or 'quite a lot' of 'confidence in the civil service' averaged around 56% over the period from 1981 to 1999, whereas in Australia they declined from 47.3% in 1981 to 37.9% in 1995, and in Britain they averaged around 46% (World Values Survey).

The most likely explanation lies in the relative propensity to abide by the law. Comparative studies on this issue are scarce, but one indicator from the World Values Survey suggests that US citizens may on an average be more law-abiding than Australian or British ones. Table 7.4 shows

Table 7.4 Propensity to avoid paying public transport fares: 1981–1999*

Year	United States	Australia	Great Britain
1981	–	58.9	60.2
1982	68.0	–	–
1990	61.4	–	57.9
1995	67.5	63.5	–
1999	49.9	–	48.1

* % answering ‘Never justifiable’ to the question of whether it is justifiable to avoid paying a fare on public transport.

Source: World Values Survey, www.worldvaluessurvey.org

the percentage of people responding that it is ‘never justifiable’ to avoid paying a fare on public transport. At each stage, US taxpayers are less disposed to avoid paying than are those of Australia or Britain. Further support for this explanation comes from the above-mentioned study by Bobek et al., who surveyed taxpayers from, inter alia, America, and Australia, and found that personal moral beliefs that it would be wrong to evade paying taxes accounted for more of the difference in intention to comply than social norms (i.e., perceptions of what others thought would be appropriate) and ‘descriptive norms’ (i.e., perceptions of how much people actually failed to comply) (2007, 55–60; see also Alm et al. 1995).

While the level of tax morale has been higher at every stage in America, it is also noticeable that it dropped considerably in 1999, from 74% to 63%. Although this is still higher than that at any stage in the other two countries, it demands explanation. A likely explanation lies in the sustained public criticism of the IRS in the Senate hearings of 1997, which gained widespread and prolonged media coverage and which did considerable damage to the IRS’s already less-than stellar reputation.

By contrast, Great Britain’s level of tax morale has been considerably lower, at just over 53% until 1990, and rising slightly by the end of the 1990s. If Americans’ propensity to comply is due to taxpayers’ ‘ownership’ of the tax return process under self-assessment, then the fact that Britons’ has been lower can be seen as a consequence of the complete disengagement of the majority of taxpayers from the process, under the PAYE no-return system. Given that all their tax affairs are handled almost entirely by HMRC, the system is likely to present itself to them as an alien construct, with which they have at best a

prosaic relationship. At the same time, the modest increase in Britain's tax morale between 1990 and 1999 is explicable by the fact that in the middle of that period self-assessment was introduced for a minority of taxpayers, with accompanying efforts to make the system more responsive.

In summary, this comparison of the cases indicates that giving taxpayers the opportunity to co-produce their tax returns, through the process of self-assessment, may in itself elicit greater compliance, because of the positive impact it has on intrinsic, social, and normative motivations.

Conclusion

On the face of it, few actions by a government could be more coercive than to compel its citizens to give it money. That is why we tend to think of their compliance with taxation laws in terms of sanctions. But this perspective is far too simplistic in the light of two inescapable facts which emerge from this chapter. The first is that taxpayers' compliance is more than perfunctory acquiescence. For all but the simpler tax systems such as that applying to British PAYE taxpayers, it requires their active co-operation in doing work essential to the functioning of the tax system, in compiling information, honestly entering it on returns, and punctually lodging them. The tax system simply cannot operate without this work on their part and works more effectively with it.

The second is that sanctions in themselves are of limited effectiveness, and in some circumstances counter-productive, in eliciting this work from taxpayers – or more particularly in getting it to be done more effectively. They are necessary for some, less honest taxpayers. But sanctions are likely to reduce the compliance of most taxpayers, who are contingently compliant. Inducing a positive contribution from them calls for positive contributions both from the tax authority and the government in general. These taxpayers are more likely to co-operate if they perceive that they receive public value in return, that the tax system is distributionally and procedurally fair, and that it is convenient for them to do so.

Thus, the tax authority has to target different approaches to different segments of the taxable population. With those who are non-compliant, it needs to apply coercion. But with those who are largely or contingently compliant, it needs to offer an exchange: public value and other positive rewards from the government, in return for co-operation

from the citizens, not only in providing the resources to fund this public value, but also in facilitating the process of handing them over and accounting for them. In doing so, it must to some extent trust these citizens to act honestly, whilst not allowing this trust to be abused by the less compliant.

8

Client Co-production: An Exchange Perspective

Introduction

Letter-senders, job-seekers, and taxpayers – these are three very different types of co-producing clients. This chapter compares and contrasts the cases to address the two questions which are the focus of this book: the circumstances in which an organisation might beneficially utilise client co-production; and when different factors prompt clients to co-produce. Together these questions basically concern what each party to the co-production relationship receives from the other – namely, what does the organisation obtain from clients when they co-produce, and what do clients obtain from the organisation? The chapter concludes, therefore, by outlining an exchange relationship between the organisation and its clients.

When is client co-production appropriate?

The pattern of performance of client co-production across the three cases

The evidence in the three cases, summarised in Table 8.1, reveals no particular pattern of ‘performance’ of client co-production – that is, of the extent to which client co-production was beneficial to the organisations. The cases exhibit no systematic pattern wherein the benefits of client co-production are consistently confined to improved effectiveness rather than reduced cost, or vice versa. Instead, the pattern is haphazard. The benefits can accrue in either increased effectiveness or reduced costs, or both. In a nutshell, it shows that client co-production was beneficial to the organisations studied (and to different aspects of their work) to differing extents, and in different ways.

Table 8.1 Impact of client co-production on effectiveness and cost in the three cases

Case	Client contribution	Impact of client co-production on program/organisational performance by comparison with organisational production
Postal services	Writing postcodes in correct position or typing addresses	POSITIVE (faster mail processing → speedier delivery; labour-saving machinery → ↓ cost)
Employment programs	Engaging actively with LMPs	POSITIVE (enhanced LTU job-readiness, more LTUs obtaining sustainable employment; modest net cost)
	Finding jobs	MIXED (positive for more confident and better equipped, negative for those less so; modest net cost)
	Securing jobs (presenting well at interview)	POSITIVE (enhanced LTU job-readiness, more LTUs obtaining sustainable employment; modest net cost)
Tax administration	Accurately and honestly completing and lodging returns	POSITIVE (more accurate and timely declarations of taxable income; neutral cost – staff shifted from assessing to audit and help)
	Calculating tax liability	NEUTRAL/NEGATIVE (less accurate than tax authority staff or tax agents → rework)

In the case of postal services, when their customers write postcodes on the front of envelopes which optical character recognition (OCR) machines can read, or type the addresses, they enable much faster processing of their letters, and therefore much more timely delivery. By facilitating the high-volume and labour-saving operation of those machines, they also enable the organisation to reduce its costs considerably.

In the second case, encouraging co-production by the long-term unemployed seems to be more effective in enhancing job-readiness and in securing jobs, but of mixed effectiveness in the activity of finding jobs. At the same time, client co-production appears to have modest implications for direct budgetary costs. Overall, it seems to have had a net positive effect by comparison with organisational production.

In the case of tax administration, the relative performance of taxpayers and tax office staff varies across different aspects of the tax return process. For two of those tasks, namely, the calculation of taxable income and tax liabilities, production by the tax authority and co-production by the taxpayer are potential substitutes for each other, and the issue turns on the relative costs and benefits of using one or the other, which in turn is largely a function of who has greater capability to perform the task. The three tax authorities have sought to minimise the role played by the taxpayer, and instead have their tasks performed by tax agents and/or electronic lodgement systems. But, the other parts of the return process – completing the return form and lodging it – depend inescapably on co-production by the taxpayer, since they are more complex activities. In these circumstances, the question is not whether to enlist co-production, but how best to do it.

Explaining the pattern of performance

The question is, in what types of circumstances is client co-production likely to have beneficial effects? Are there contextual differences between the cases which explain the differences in the ‘performance’ of client co-production? Table 8.2 summarises key attributes observed in the within-case analysis.

One explanation which fits poorly with the observed pattern of ‘performance’ is the type of client. On the one hand, all the client types exhibit some degree of successful performance in co-producing some aspects of the program or activity, and two of them have mixed performance in other aspects. There are therefore no matching patterns between client type and co-production performance.

A more promising explanation seems to lie in whether the client’s contribution is an input, a process, an output, or an outcome of the program or activity. The cases show that where clients produce inputs, processes, or outcomes, the impact on organisational effectiveness or cost is positive, but where they produce *outputs*, the impact is at best mixed.

Clients contribute *inputs*, especially information, in two of the cases. In the postal case, clients provided inputs in the form of typed addresses (in the US and UK) or in accurate postcodes written in a specific location on the envelope (in Australia). These pieces of information, pre-formatted in a particular way by the clients, enabled subsequent processing by the organisation’s optical character recognition machines. In the tax case, taxpayers performed most of the work in the tax return production process *before* the tax returns reached the tax authority’s

Table 8.2 Contextual differences among the three cases

Case	Client contribution	Client type	Client contribution of inputs, processes, outputs or outcomes	Interdependent or substitutable
Postal services	Writing postcodes in correct position or typing addresses	Paying customer	Inputs	Interdependent
Employment programs	Engaging actively with LMPs	Beneficiary	Processes	Interdependent
	Finding jobs	–	Outputs	Substitutable: some clients more effective than organisation, others less
	Securing jobs (presenting well at interview)	–	Outcomes	Interdependent
Tax administration	Accurately and honestly completing and lodging returns	Obligatee	Inputs	Interdependent
	Calculating tax liability	–	Outputs	Substitutable: some clients more effective than organisation, others less

own staff. They put considerable time and effort into providing inputs: information about income and expenses, accurately entered on the appropriate forms, and lodged on time. In both these cases, these client inputs affected organisational performance positively.

Positive effects also ensued in the one case – employment programs – where clients performed *processes*, most notably by transforming themselves in some way. They thereby contributed to the process of making

themselves more 'job-ready', by actively engaging in labour market programs (job search training, work experience, or skills training) in a committed fashion. As Whitaker notes, this is an essential feature of many service transactions, in which the organisation and the client 'together produce the desired transformation' (1980, 240).

Similarly, a positive effect was observed in the one case where the client's contribution was to convert organisational outputs into desired *outcomes*: the long-term unemployed. The employment agency provided an output to the client, in the form of a job referral, who then transformed it into an outcome – the actual securing of the job – by making a positive impression on the employer, through presenting well at interview and making a diligent start on the job. Significantly, job-seekers' ability to have this positive effect was heightened by them having enhanced their job-readiness through LMPs.

By contrast, in the two instances where clients produced *outputs*, their impact was either mixed or negative. In both these cases, it emerged that some categories of clients were more effective than the organisation at producing certain outputs, whereas others were not. One concerned the activity of finding jobs for long-term unemployed people. For some clients, the public employment agency was more effective at finding potential jobs, whereas for others, the reverse was true. The other case concerned the tax authorities, which found that some categories of taxpayers (such as business or those using a tax agent) could effectively calculate their own tax liability when completing returns – and thereby finalise the production of these critical outputs – whereas a significant proportion of the others (individual taxpayers without agents) tended to make mistakes, thereby necessitating costly reworking of returns.

We could conclude, therefore, that the benefits of client co-production are most likely to accrue when clients are engaged in any aspect of the production process except producing outputs. However, this would be neither a useful nor a particularly meaningful conclusion. Its usefulness would be limited since it still does not tell us much about the different effects of clients producing inputs, engaging in processes or realising outcomes. More importantly, it masks a deeper explanation. A closer look at the cases demonstrates that client co-production can have beneficial effects in two types of circumstances.

One is when there is an *interdependency* between the work performed by the client and that done by the organisation, that is, when the organisation's purposes cannot be achieved without some contribution of time and effort by the client. In this situation, at least some part of the production process has to be carried out by the client, and

cannot be done by the organisation. This is demonstrably true in all the cases where co-production had a positive impact on organisational performance.

For their production processes to operate efficiently and effectively, postal services had no choice but to rely on clients to either type addresses or to write postcodes accurately and in a specific location on the envelope, since only they knew which destinations and/or postcodes they wanted their letters to go to. These inputs were essential preconditions for the operation of the organisation's OCR machines.

Likewise, tax authorities cannot begin to carry out their work in the 'account-reconciliation' process until their clients – the taxpayers – have put considerable time and effort into providing the necessary information about income and expenses, accurately entered on the appropriate forms and lodged on time. For those without tax agents, this work includes: (1) gathering information about income and expenses; (2) retaining annual earnings certificates, accounts, and other evidence of income; (3) collecting documentary evidence of expenses; (4) doing calculations about income and expenses; (5) entering this information on the form; and (6) mailing the form. Even those with tax agents have to do the first two of these tasks, and to a greater or lesser extent monitor their tax agents' performance of the latter three. Except for British PAYE taxpayers, who have simple affairs, none of these tasks can, as things stand, be carried out by tax authorities nor can it discharge its own responsibilities without them first being done by taxpayers.

For employment agencies to effectively carry out their role of finding jobs for long-term job-seekers, the latter first had to become more 'job-ready', that is, to acquire attitudes, skills, and experiences which made them more attractive to employers. Part of the work of making them job-ready was carried out by the employment agency or its contracted service-providers, in offering labour market programs which provided job search training, work experience, or skills training. However, these labour market programs could not properly achieve their goals unless their clients also put in some time and effort, not just in taking part in these labour market programs but in actively engaging them in a committed fashion. The programs inherently entailed conjoint work by the organisation and the clients, in transforming the clients into a more job-ready state.

Moreover, when the agency provides a job referral to the client, this output is not transformed into a valuable organisational outcome until the job-seeker actually secures the job, by making a positive impression on the employer, through presenting well at interview and making a

diligent start on the job. This effort cannot be performed by the agency, but it is essential to the realisation of the desired outcome, namely, the job-seeker being in employment for some period after the job referral or labour market program.

An economist might argue that in this case, clients are not taking part in an employment agency's production process but rather obtaining services from the agency, which they then use as an input into their own separate 'production process' of securing a job. This would be the case, for example, if the client had purchased the job referral from a private employment service. But to look at it in this way would be to miss important differences between the two situations. For a start, the ultimate reference point for the agency is public value. It is pursuing *outcomes* (durable placement of job-seekers in jobs) and not simply producing outputs (job referrals). It is these outcomes which are valued by the collective public whom the agency ultimately serves. By contrast, a private employment company seeks to maximise job referrals in the hope of realising its preferred outcome of higher profits. The value is in the output, not the outcome. Furthermore, the agency-client transaction is not a market exchange. The job-seeker is a beneficiary and obligatee but not a paying customer. The exchange is one in which the job-seeker receives a job referral and other support, and in return provides time and effort to convert that job referral into a secured job. In short, the exchange is one of (co-production) work for (organisational) services, not one of (buyer) money for services.

Therefore, where the work performed by the client and that done by the organisation is interdependent, co-production is not only desirable but also unavoidable. It may be possible for the organisation to reconfigure the production process so that the need for client co-production is eliminated or at least reduced; where the organisation is aware of such possibilities it will usually seek to do so. But in circumstances where the achievement of the outcome requires a contribution that only the client can supply, such as unique information or self-transformation, this is likely to be very difficult. Even where it is feasible, it may require replacing the client as co-producer with some other third party who is connected to the client. For example, postal services can eliminate some of the need for its customers to write postcodes by encouraging bulk mailers of accounts and other reply-generating mail to include addressed return envelopes. But this means enlisting the bulk mailers as co-producers. In short, client co-production is sometimes inescapable.

Consequently, the question for the organisation is not *whether* to utilise client co-production, but how best to do so. The challenge is to

attempt to enhance the quantity and/or quality of client co-production, whilst minimising the costs to the organisation of doing so. This is discussed further in the next section.

Quite often, however, client co-production and organisational production are not interdependent. Rather they are substitutes for each other; the activity in question can be performed by either the clients or the organisation's staff. This brings us to the second type of circumstance in which client co-production can have beneficial effects on organisational performance: *where clients are more able* to perform the task than the organisation. Two of the cases (long-term unemployed and taxpayers) provide examples of where, at one or more points in the production process, client co-production and organisational production were substitutes for each other.

In one of them – employment programs – it emerged that some categories of clients were more effective than the organisation at performing certain tasks, whereas others were not. One concerned the activity of finding jobs for long-term unemployed people. For those who were less confident, less socially connected, and less equipped with job search skills – and by implication, probably less educated – the public employment agency was more effective at finding potential jobs. It had staff who were more experienced in job matching, a massive database, and was strategically situated as the agency to which many potential employers turned for recruits. On the other hand, it was less able than the client to be in tune with specific client perceptions of job-matching opportunities or with local situations. When the client was more equipped to undertake job-matching activities, by virtue of greater confidence, better networks, and skills, he or she was better able to tailor job search strategies to their own needs and local circumstances.

In the other – tax administration – agencies effectively sought to find other co-producers of tax returns (employers and tax agents) as alternatives to taxpayers. HMRC largely assigned the task to employers for its PAYE taxpayers, whereas for more complex taxpayers, and for all individual taxpayers in America and Australia, tax agents were encouraged to adopt the role, with the assistance of electronic lodgement. Even where taxpayers did it themselves, they were encouraged to utilise electronic lodgement.

In summary, the answer to the question of whether an organisation should make use of client co-production or its own internal productive resources is, 'It all depends.' It depends first on whether the clients' contribution and the organisation's production process are interdependent, and second, if they are not interdependent, on whether the clients or

the organisation are more competent at performing the requisite work. (Interestingly, greater interdependence is also likely to entail more relational as opposed to transactional dealings between the organisation and the client. Consequently, although the necessity to co-produce is greater, so too is the complexity of the relationship and therefore of the task for the organisation of eliciting co-production, as discussed in the next section.)

This theory is consistent with some aspects of the public choice view of when co-production is appropriate, advanced by Parks et al. (1981) and discussed in Chapter 1. But it also elaborates and amends their model. The elaboration is in distinguishing among clients' contributions in terms of inputs, processes, outputs, and outcomes. At the very least, applying these distinctions enables more systematic identification of the precise contribution made by clients. The amendment is that where organisational production and client co-production are substitutes for each other, the competence of clients to co-produce, rather than the cost of them doing so relative to organisational staff, seems to be the critical issue in whether their contribution is beneficial to the organisation.

Eliciting co-production (1): Increasing clients' willingness to contribute

We have defined client co-production as clients taking *positive* actions which contribute to organisational purposes, and not simply refraining from negative ones. The challenge for the organisation is to prompt clients to go beyond simply complying with its minimum requirements, to maximise the level and quality of their contribution. The more they do so, the better will organisational or program performance be enhanced. This section considers what motivates clients' *willingness* to contribute, whereas the next considers how to augment their *ability* to do the tasks required of them.

As we saw in the previous section, client co-production depends very much on the willingness of the clients to contribute effort which helps achieve organisational or program purposes. Undertaking positive actions requires a voluntary impulse to act. The more such actions require the client to exercise some discretion, the more they rely on his or her willingness to contribute – to recall or compile an information input, to gain new skills or characteristics, or to use an organisational output. Even in the simplest of tasks, co-production will require tapping the 'tacit knowledge' of the clients, to interact with the organisation in

conjoint activities (Manwaring and Wood 1985). The more eagerly or at least the less grudgingly they contribute work, the easier it is for the organisation to reach its goals, or to do so at less cost.

What motivates clients to give their valuable time and effort to organisational purposes? In this book, we have looked at five types of possible motivators: sanctions, material rewards, intrinsic rewards, solidary incentives, and normative appeals. Table 8.3 summarises the key motivators in each of the three cases.

In the postal services case, the primary motivator was material reward, in the form of faster mail delivery at no additional monetary cost. In the case of the long-term unemployed, the primary motivators were intrinsic rewards, manifested as interest in and respect for clients' needs. At the same time, applying sanctions such as threatening to cut-off people's unemployment benefits may actually discourage client co-production. Job-seekers' co-production was also prompted by enhancing their ability to do it.

Finally, in the case of tax administration, taxpayers were induced to co-produce in the tax-reconciliation process by a combination of motivators. Sanctions were effective as deterrents only for a small proportion of taxpayers – the opportunistically non-compliant – and at considerable cost. For other taxpayers, sanctions tended to discourage co-production by provoking resistance. Material rewards, in the form of speedier refunds, were effective for one aspect of the tax process: the lodgement of returns on time. But they were not effective for the other aspects. Instead, the most significant motivators were non-material rewards. Intrinsic rewards, in the form of increased procedural fairness

Table 8.3 Key motivators of client co-production in the three cases

Motivators	Postal services	Employment programs	Tax administration
Sanctions	–	X	✓/XX
Material rewards	✓✓	–	✓ (return lodgement only)
Intrinsic rewards	–	✓✓	✓
Solidary incentives	–	✓	✓
Normative appeals	–	–	✓✓

✓✓ = strongly positive motivational effect; ✓ = somewhat positive motivational effect; XX = strongly negative motivational effect; X = somewhat negative motivational effect; – = not applicable.

and client responsiveness, played a role, as did solidary incentives, which operated through the influences of taxpayers' social milieu, and their need to avoid social opprobrium. Of most significance were normative appeals, resonating with taxpayers' concern that their tax dollars were being spent appropriately and that others were paying their fair shares.

Explaining the pattern of motivation: Client types

From this summary, a diverse pattern of motivators is observable. What accounts for this pattern? Again, a demonstrably unsatisfactory explanation is that the type of motivation varies with the type of client. Sanctions appear to be counterproductive with both the beneficiary category (the long-term unemployed) and most of the obligatee category (law-abiding taxpayers), but effective with a small minority of taxpayers (the opportunistically non-compliant). Similarly, solidary incentives are somewhat effective with both beneficiaries and obligatees, but not with paying customers. Thus, there is no systematic variation of motivators among the different client types. Instead, it is necessary to consider the circumstances in which each motivator has an effect.

Sanctions and material self-interest

Two of the cases involved use of sanctions as a method of inducing clients' compliance with the particular co-productive obligations: the long-term unemployed and taxpayers. The evidence indicates that, with one exception, they were at best insufficient as motivators of client will-
ingness, and at worst tended to prompt contrary behaviour.

In the case of the long-term unemployed, the vehicle for the application of sanctions was some form of activity test (or 'work test'), under which unemployment benefits would cease unless the client demonstrated a continuing effort to find a job or participate in labour market programs. In some cases, benefits would cease after a limited period of time. Such sanctions had variegated effects. Many – possibly half – of the long-term unemployed simply found it difficult to comply, either because their prolonged joblessness had lessened their self-confidence, or because they spoke little or no English, or because they had barriers to employment such as disability, addictions, psychological problems, or criminal records. For these more disadvantaged job-seekers, sanctions were largely irrelevant to their propensity to work, which was more to do with their capabilities than their willingness. They were therefore more likely to engender demoralisation than compliance. A smaller proportion wilfully avoids their job search obligations while

continuing to receive benefits. These tend to be difficult to monitor, because of information-asymmetry, a difficulty compounded by the under-resourcing and large caseloads of benefits agencies. Finally, it is likely that a significant proportion of those who do comply are effectively forced to take lower-paid, casual employment, which is less sustainable. These variegated effects all add up to the same thing: sanctions are of limited effectiveness or even counterproductive in placing people in worthwhile employments.

In the case of tax administration, legal sanctions have traditionally been seen as the most important device for compelling taxpayers to comply with their tax obligations. Failure to honestly and accurately declare income and deductions, and to lodge returns punctually, could result in prosecution, penalty, fine, or even imprisonment. It has been assumed that taxpayers, faced with the prospect of a large penalty, will protect their material self-interest by complying. However, the evidence indicates that sanctions have variegated effects here as well, some of which are similar to those on the long-term jobless. First, to the extent that sanctions induce taxpayers to comply, this is more to do with their fear of being caught; increases in penalty levels have only modest effects by comparison. The evidence indicates that this is as much due to sociality – the fear of the stigma of being caught out as a tax-evader – as it is to material self-interest. Second, with some taxpayers, the application of sanctions provokes resentment and gaming behaviour rather than compliance. This is mostly because they diminish trust. To apply enforcement to people – to circumscribe their choices, their behaviour, and threaten punishments – is to convey assumptions about their motivations, and signal future negative interactions. To this message, the clients' response may be one of reluctant compliance, but not increased willingness. Their short-term behaviour may change but not their longer-term internalised attitudes.

One account of how this happens focuses on causal attribution. Ayres and Braithwaite cite extensive research showing that people are less likely to internalise values such as altruism or resistance to temptation if they attribute their action to a salient reward or punishment (1992, 49). As Bandura puts it, 'Compliance gained by strong threat does not produce *self* control by devaluation of forbidden activities because the restraint is seen as being externally reinforced' (1986, 268, emphasis added).

Thus instead of being willing to contribute, clients subject to sanctions are likely to seek opportunistically to minimise their contributions of effort. This provokes a widely documented spiral which is

increasingly corrosive of clients' willingness to contribute: the organisation reinforces enforcement of the rules, the clients find escape clauses, the organisation imposes tougher rules to close the loopholes, the clients redouble their efforts to find ways around the rules, and so on. The upshot is that clients find the organisation's enforcement to be arbitrary or complex, and the organisation finds it more and more expensive to bring about compliance (Bardach and Kagan 1982; Braithwaite 1985). By comparison with other methods of eliciting co-production, sanctions are costly to administer for all but the simplest of tasks.

Indeed, even with very simple tasks, organisations can in some circumstances make use of an alternative to sanctions for inducing compliance by clients: technical compulsion. This entails configuring the production process so that the client has no choice but to perform the required co-productive activities. This is seen in private sector systems such as automatic teller machines, self-service supermarkets, or petrol stations. In each case, the client has a 'consideration set' of one (Roberts and Lattin 1991, 1997). The only way he or she can obtain the desired value is by operating the technical system as required. Interestingly, this technical compulsion does not seem to undermine client willingness to contribute as much as (legal) sanctions do, mainly because it usually entails such simple tasks that the imposition on the client is minimal.

This approach was adopted by Australia Post in configuring the process of writing postcodes on envelopes. This process can be analysed into three elements, each entailing a choice to be made by the customer:

1. Which particular postcode numbers to write.
2. Which location on the envelope to write them.
3. What size and shape the written numbers should be.

The first of these choices had to be made by the customer, since only he or she knew the address to which the letter was being sent. However, the postcode squares were designed so that the customer had little choice about the second element (the location) and was somewhat constrained about the third (size and shape). At the same time, they made it very simple for the customer to comply. A similar logic is at work in the use of electronic lodgement systems for tax returns. The templates on the website organise taxpayers' affairs into categories which they have to adopt, but which are useful to the tax authority's processes.

In summary, contrary to what utility theory might suggest, sanctions broadly do not mobilise material self-interest to engender client willingness to co-produce. They are ineffectual and even counter-productive in

building the necessary voluntary impulse. But if they are so ineffective as motivators of client co-production, why do organisations such as employment agencies or tax administrations use them, and persist in doing so? The answer is that sanctions induce co-production by helping to mobilise other types of incentives for clients to contribute. This will be explored in more detail in a later section.

Material rewards and the specificity of the work

If sanctions are problematic as mobilisers of co-production, what is likely to prompt clients willing to donate their valuable time and effort to the achievement of organisational or program purposes? The broad answer is that they contribute *when they receive, or expect to receive, something at least as valuable in return*, either directly or indirectly. In other words, clients respond not to negative sanctions but to positive rewards. This is why co-production can be conceived as an exchange.

This focuses attention on the four remaining types of motivators other than sanctions, all of which are positive incentives: material rewards, intrinsic rewards, solidary incentives, and normative appeals. But which of these ‘things of value’ most effectively elicits co-production? What types of incentives are most likely to motivate clients to co-produce?

Comparative analysis of the cases indicates that none of these incentives on its own resonates best in all situations, but rather that particular incentives are effective in particular circumstances. These circumstances can be understood in terms of two dimensions. One concerns the specificity of the work to be performed by the co-producer and is the subject of this sub-section. The other concerns the nature of the value consumed by the client, which is explained in the next sub-section.

The relative specificity of the work to be performed by the co-producer is the comparative ease with which the organisation can prescribe it and ascertain if it has been done. The evidence from the cases is that *where it is not simple to do so, it is problematic to rely on material rewards as motivators for co-production*. This is not to say that the clients are indifferent to money. But it is hard to apply material rewards in a way that motivates the client to perform the specifically desired co-productive work when that work is difficult to prescribe and verify.

This can be understood by reference to the distinction between economic and social exchange discussed in Chapter 2. Recall that ‘economic exchange... stipulates the exact quantities to be exchanged’, whereas ‘social exchange’ entails ‘*unspecified obligations*’ (Blau 1964, 93). With economic exchange, equivalency is easily calculable, and what is to be

exchanged is declared in advance. Neither party to the exchange leaves it to the other to decide afterwards how to repay the obligation. They specify it clearly in advance and check whether it occurs subsequently. By contrast, social exchange involves 'favours that create diffuse future obligations, not precisely defined ones' (1964, 91).

This has important implications for the attitude of the parties towards each other. Blau draws on anthropological research to point out that 'social exchange tends to engender feelings of personal obligation, gratitude and trust; purely economic exchange as such does not'. This is because the diffuseness of the exchange 'requires trusting others to discharge their obligations' (1964, 94). Thus social exchange can promote a spiral of rising trust:

By discharging their obligations for services rendered,...individuals demonstrate their trustworthiness, and the gradual expansion of mutual service is accompanied by a parallel growth of mutual trust....[This] mutual trust between committed exchange partners encourages them to engage in a variety of transactions – to exchange advice, help, social support, and companionship – and these diffuse transactions give the partnership some intrinsic significance. (1964, 94, 315)

Conversely, if social exchange generates rising trust, it is logical that economic exchange tends to promote a spiral of falling trust. As Fox explains

The specific nature of the exchange, embodying little trust by each in the other's discretion, generates a probability that each will watch the other with increasing vigilance, both to secure for himself an acceptable bargain and to ensure the full observance of its terms. Relations are therefore low in trust to the extent that they approach the wholly contractual form postulated by economists as pure economic exchange, with precisely defined and specific obligations on both sides, and with each party watching the other for infractions; jealously guarding concessions; and refusing any request for *extra-contractual favours* unless precisely defined reciprocation is guaranteed. (1974, 72, emphasis added)

Support for this insight comes from a substantial body of research in social psychology and organisational behaviour which demonstrates that extrinsic incentives, if perceived as controlling, diminish intrinsic

motivation, because their recipients attribute any change in their own behaviour to the external material rewards, and therefore do not internalise the values implicit in the behaviour (Deci 1975; see also Lepper and Green 1978; Boggiano et al. 1987; Kohn 1993).

What this means for the co-production relationship is that the necessary volition of the client to contribute is harder to encourage through an economic exchange, that is, one in which specific material rewards are exchanged for the discharge of specifically defined tasks. This is likely to be less of a problem where the task is easy to specify and verify – where it is obvious that it is either done or not done (e.g., whether a button has been pressed). But where the task calls for ‘extra-contractual favours’, requiring discretion, tacit knowledge, or additional enthusiasm by the client, the necessary level and intensity of willingness will not be elicited by precise calculation of obligations. Instead, it will probably shrivel in a climate of mutual vigilance.

The difficulty is reinforced by a related agency problem. If the exchange is constructed as an economic one, and thereby generates a low trust spiral between the client and the organisation, there will be increasingly ornate gaming behaviour by the client and a need for greater mutual vigilance. The organisation will have to be able to specify very exactly what work is to be done, to limit opportunities for the client to gain the material reward without contributing the required effort. Such precision will be difficult, if not impossible, for all but the easiest tasks.

An example from the three cases where the co-productive behaviour was simple to prescribe and easy to observe was that of letter-senders writing postcodes. As noted above, part of this work could be secured by ‘technical compulsion’. But one element, determining which numbers to write in the four squares, had to be done by the customer. This task was quite simple to prescribe; it was also very easy for postal services to verify whether the customers had done it exactly as prescribed – indeed, they had sophisticated machines capable of checking each envelope in milliseconds. With these same machines, the postal services could directly reward customers who had filled in postcodes correctly by processing their letters very quickly, thereby getting them to their destinations more promptly than if the postcodes had been written wrongly. This speedier service was precisely what postal services publicised in their efforts to encourage customers to take a moment to enter the correct postcode and write it in the boxes.

A similar link between behaviour and reward can be drawn in one aspect of the taxation case. Although most of the client’s work in the tax

return process is quite difficult to specify and monitor, as we shall see below, one particular step is not: the lodging of the return. To encourage taxpayers to lodge more promptly (or to contact their tax agents to begin the annual return process earlier), tax authorities sought to offer a direct monetary reward, namely a faster tax refund. It is not just that earlier lodgement enabled the authorities to make an earlier start on its previously slow turnaround time, but also that it had dramatically reduced that time, through electronic lodgement. As the evidence from the case study indicates, the faster turnaround time was valued by taxpayers. And because the behaviour required of the taxpayer was simple and clear, it was easy for the tax authorities to prescribe it and to observe when it had been performed, and then to issue the corresponding 'reward'.

The essential point about these examples is that the organisation could effectively utilise material rewards because it was easy to do so. The required behaviour could be explicitly spelt out, the credit for its performance apportioned, and the directly equivalent reward applied. Material incentives did not undermine intrinsic willingness because none was needed to complete the task.

However, in other aspects of the taxpaying process, as well as in the case concerning long-term unemployed people, the co-productive work could not be so easily specified and monitored, and material rewards were unlikely to motivate the consummate co-operation it required.

In the tax case, the difficulty of prescription is eloquently attested by the sheer volume and complexity of tax legislation in the United States and Australia, and in the United Kingdom for those with more complex tax affairs. Significantly, this legislation has steadily grown in volume in direct proportion to the sophistication of gaming behaviour by non-compliant taxpayers for several decades. Not only is it hard to prescribe what taxpayers have to do, but it is also very difficult to monitor whether they are doing it. Elaborate audit processes, backed up by systematic databases and intelligence gathering, can detect some non-compliance, but they cannot eliminate it except at prohibitive cost in audit resources and official intrusiveness.

In this context, to offer a material reward – say, a tax discount – for virtuous performance of the more complex tasks in the tax return process, such as honest disclosure of income and expenses, would be a hazardous undertaking. Not only would there be ample opportunities for gaming, but the reward would also be transient in its effects: withdrawal of the reward would have a demotivating effect on taxpayer honesty. It is also questionable whether the cost of the discount

to treasury coffers would be outweighed by the resultant gain in revenues.

Similarly, the activities required of long-term unemployed people in becoming job-ready and in obtaining jobs were difficult to specify in both process and outcome terms. At first sight, it might seem that this assertion is contradicted by one key element in the employment strategies examined: activity agreements. They seemed to entail clearly spelling out exactly what activities the clients must undertake. Conceivably, the job-seekers could have been offered a cash reward for each task completed, such as each labour market program undertaken or each job interview attended. But even leaving aside the substantial cost involved, this would not have generated the behavioural transformation so essential to the employment strategy. For instance, how much does recorded attendance at a job-search training course tell the employment agency about the quality of the client's engagement with that program? What does an employer's signature on a job interview attendance report say about the job-seeker's keenness to clinch the position? The more the agency attempts to tighten the procedural requirements, the more onerous the obligation on the clients and the less voluntary their predisposition to act. In fact, activity agreements were not legalistic documents which tightly circumscribed clients' obligations. As will be argued below, their impact was not through the mobilisation of material self-interest but rather through appeals to other motivations.

In summary, much co-productive activity in the public sector is difficult to specify in advance and to monitor as to performance. It may entail tasks which vary between different situations that are unknowable in advance, or about which the client has more knowledge than the organisation, or which cannot be disentangled from the actions of other players (see Rainey et al. 1976; Downs and Larkey 1986; Wilson 1989; Donahue 1989; Prager 1994). In these situations, it is hard to apply material rewards in a manner that motivates clients' ungrudging willingness. Rather, such rewards may prompt a reciprocal calculative stance by the clients which constrains their contributions.

The conclusion, therefore, is that material rewards are effective incentives for client co-production only when the work is easy to prescribe and verify. Where it is more complex, non-material rewards are necessary. Some social psychologists have provided an explanation of how this works by reference to the notion of peripheral processing (Petty and Cacioppo 1981). They argue that by contrast with positive monetary rewards, which focus clients' attention on precise calculation of costs and benefits, indirect rewards such as being treated respectfully

are mentally processed by clients in a less deliberative fashion, known as 'peripheral processing'. They take in cues which are peripheral to the more explicitly stated obligations, making the latter less salient. Faced with direct persuasion, people subject it to scrutiny and seek to devalue it, whereas peripheral cues take their attention away from this direct message and evoke a normative response – for example, a liking for the organisation as a result of being treated respectfully (Smith and Stalans 1991, 39–40).

While this change in client attitude may be transient, it can be more permanently internalised by further processing. One mechanism for this may be the reduction of cognitive dissonance (Festinger 1957): previously reluctantly compliant clients may adopt a more compliant approach, to bring their behaviour into line with their changed beliefs about the organisation, generated by respectful treatment. Another may be the 'norm of reciprocity' (Gouldner 1960): 'the strong tendency of humans to try to reciprocate in kind behaviours directed toward them' (Smith and Stalans 1991, 40; see also Cialdini 1989).

In short, clients in the public sector are not Pavlovian subjects of rewards and penalties. If they wish to contribute time and effort to agency purposes, they do so for their own reasons, which are much more complicated than money or the avoidance of sanctions. To foster co-production, all the organisation can do is attempt to have an influence on clients, taking account of their varied motivations. In particular, where the co-productive tasks are more complex, clients are more likely to respond to other than material rewards. These kinds of rewards sit more naturally with social exchange. They are more diffuse and thereby engender 'feelings of personal obligation, gratitude and trust'.

However, what kinds of non-material rewards are there, and when are they most salient to clients? This brings us to the second dimension for understanding the differing circumstances within which the various motivators are most effective.

Non-material rewards and the type of value consumed by clients

An organisation or program can deliver private or public value to its clients. Private value is consumed individually by the client, whereas public value is necessarily 'consumed' by the whole society, as is the case, for example, with public goods. The conclusion to be drawn from the two cases in which the co-productive work is more difficult to specify and monitor – the long-term unemployed and taxpayers – is that

the degree of 'publicness' of the value consumed by clients affects the types of non-material rewards to motivate clients to co-produce. Moreover, greater publicness compounds the inadequacy of material rewards as incentives for client co-production. To explain these conclusions, let us take each case in turn.

The long-term unemployed were supplied with *private* value by the employment agencies. They received labour market program places and jobs as individuals. At the same time, as we have seen, their co-productive tasks were quite complex to prescribe and monitor. What incentives were most effective in eliciting this co-production, particularly from clients who were very demotivated as a result of repeated failure to obtain work?

The case indicates that agency strategies had their greatest impact on the demoralisation besetting the long-term jobless by building their self-esteem and their sense of hope and purpose. They therefore had their most potent effects by resonating with profoundly *intrinsic* motivations: the clients' sense of self-determination and competence. In particular, agencies' client interaction strategies had these effects by showing interest in and concern for clients' needs, and by trying to tailor strategies which suited each individual. For instance, the intensive interviews at the outset of programs in each of the three countries had a clear impact on clients' chances of getting a job. This was primarily due to the individualisation of the assessment and referrals provided to clients, and to the enhancement of clients' self-esteem as a result of someone taking an active interest. To the extent that they were genuinely bilateral in nature, activity agreements, in their various forms in the three countries, had a similar effect. By providing clearer job search goals to clients, without being minutely prescriptive, they imparted a sense of hope and purpose. Thus their most significant impact was not on material self-interest but on intrinsic motivation, specifically clients' sense of self-determination. This was not so much the case, however, where such agreements were perceived as unilateral and arbitrary.

In short, the most significant incentives for tapping co-production by the long-term unemployed were intrinsic rewards. These acted on individuals' sense of self-esteem and self-determination to generate a greater willingness to enhance their own job-readiness and search for work. To a lesser degree, sociality also played a role in some programs such as job clubs, which reconnected clients with social networks, besides improving their access to job market information and enhancing their job search skills.

In the case of taxpayers, intrinsic rewards analogous to those considered in the case of the long-term jobless were also an important motivator of taxpayer co-production. Specifically, improved procedural fairness and client responsiveness tended to encourage better taxpayer compliance, as well as abated the animosity of taxpayers towards the tax authority. Moreover, sociality seems to have played a role in fostering greater taxpayer compliance, in that taxpayers felt they were more likely to face disapproval by others if they evaded their taxes, and less likely to consort with tax evaders. However, intrinsic rewards and sociality only go part of the way to explaining voluntary compliance by taxpayers.

To properly understand taxpayer behaviour, we must also take account of their *expressive values*. The research evidence makes it clear that taxpayers are significantly more likely to comply if they feel that they receive satisfactory material or symbolic value from government and that other taxpayers are paying their fair share. Thus their willingness to co-produce will be enhanced if they are made more aware of the value provided by government, and they perceive government applying enforcement firmly and visibly against tax evaders. By doing these things, government is appealing to expressive values concerning collective purposes and distributive justice.

Interestingly, these are incentives which also seem to match the kind of value which taxpayers receive from the tax authorities: *public* value. By ensuring that the right amount of taxes is collected, the authority provides the means for resourcing the whole array of public value delivered by government. It is consequently very telling that taxpayers' willingness to contribute to the authority's work is enhanced by appeals to precisely the kinds of motivations which attach merit to public value.

Thus, in each case, there is a rough congruence between the type of value consumed by the clients and the motivations which tap their willingness to donate time and effort to co-producing that value. Eliciting job-seekers' co-production of the private value they consume entails appeals to individual intrinsic motivations, concerning self-esteem and self-determination, whereas tapping taxpayer compliance entails appeals to collective purposes and distributive justice, which are normative values concerning how the whole society should operate. In each case, eliciting co-production is a matter of appealing to motivations which enhance the salience of the type of value being consumed by the client.

However, why are *individual* intrinsic motivations insufficient to prompt client co-production of group and public value? The reason is

that collective value is vulnerable to free-riding. If taxpayers are not motivated by some concern in addition to the return to them as individuals, they are more likely to consume the collective value emanating from that action without contributing to it, or by contributing to it much less than they receive. That additional concern is embodied in people's expressive values and normative purposes.

Sociality is different from normative purposes, but it lends weight to them. It is from our social milieu that we imbibe our moral values, and that milieu tends to apply social sanctions to behaviour which deviates from the norms shared by its members. It is more likely to be effective in smaller communities than larger ones, because each member receives a larger share of the collective benefits and, because each fellow member's regard is more salient, is more easily detected in and 'shamed' for free-riding.

Where the collectivity is very large, however, as in the case of the entire Australian taxpaying public, the incentive and opportunity to free-ride is much greater. Each taxpayer might perceive that his or her failure to contribute would make little difference to the collective benefit in which they share and would go unnoticed. The classic solution to free-riding in the public domain is to establish a coercive authority to enforce collectively agreed sanctions against non-contributors. However, as we have already seen, enforcement is likely to be costly when the work required of obligatees is difficult to specify and monitor and indeed will generate resistance if more elaborate rules are invoked to overcome these difficulties. Additional incentives are therefore needed, to heighten the co-producers' valuations of the public value they receive and their perception that their own individual contributions are not exorbitant. Greater awareness of the value provided by government and of the fact that others are being obliged to pay their fair share are the motivators that fill this gap.

This second dimension – the type of value consumed – can be combined with the first – the specificity of the work – to form a typology in the form of a matrix, as shown in Table 8.4. It shows the circumstances in which each type of incentive is most effective and gives indicative examples from the case studies.

One of the cells in this matrix is empty, for reasons which underscore the logic of the foregoing argument. This is the cell at the public level in the column for which the work is simple to specify and monitor. The reason it is empty is that material rewards, which as we have seen are only effective for simple tasks, make little sense for eliciting co-production of collective value. If, for instance, the government announced that it would hand out

Table 8.4 Typology of contingencies for different types of incentives for client co-production

Nature of value consumed	Specificity of co-productive work	
	Simple	Complex
Individual	Material rewards (e.g., postal customers)	Intrinsic rewards: interest, self-esteem, self-determination (e.g., LTUs)
Public	–	Sociality Expressive values (e.g., taxpayers)

an across-the-board reduction in taxes if taxpayers demonstrated a measurable increase in tax compliance, the whole deal would be open to free-riding. In the absence of shared moral values or sociality, a taxpayer could leave it to the others to improve his or her compliance. In short, material rewards are the stuff of transactions of private value, and only then, where the co-production being elicited is easy to prescribe and check.

In summary, inducing co-production is a matter of increasing the salience of the value which the client receives from the service, by making its non-material aspects – intrinsic rewards, solidary incentives, or normative appeals – more explicit. By offering these non-material rewards, the agency makes more visible the less immediately obvious private or public value the client is receiving. Thus, to the basic exchange in which the organisation and client might normally be engaged – of services for money or consent, as envisaged in the broadened marketing concept discussed in Chapter 2 – there is added an additional exchange – of client’s time and effort for the enhanced value the client perceives when subject to these motivators.

Sanctions revisited

The argument so far has been that the most effective means for eliciting clients’ willingness to co-produce is to give them positive rewards. Moreover where the work to be done by the client is more difficult to specify and monitor, as is the case with much public sector activity, non-material rewards such as intrinsic motivation, sociality, or expressive values are most likely to encourage co-operation.

However, the use of non-material rewards poses a dilemma. On the one hand, it runs the risk of opportunistic behaviour by some clients, who may not reciprocate in the social exchange it offers, but rather consume the value produced and the non-material rewards without

contributing any co-productive effort, especially where there is scope for free-riding. Indeed, it would be naïve to imagine that there would not be some proportion of clients who would act in this fashion. Hard-headed critics of reliance on social exchange would argue that it leaves government organisations vulnerable to exploitation by more selfish clients and insist that sanctions should be wielded to force such defectors into line. Lending weight to their argument is the incontrovertible fact that virtually all government organisations responsible for regulation or compliance make use of sanctions of some form or another. On the other hand, as we have already seen, sanctions themselves tend to undermine voluntary commitment and generate opportunistic behaviour on the part of those to whom they are applied. Moreover, using them against calculated non-compliance is costly.

What, then, is the role of sanctions, and how does their use fit with the offering of positive rewards for co-production, in the exchange perspective proposed here? The case studies, informed by the responsive regulation perspective offer useful ways of thinking about these questions.

In the first place, it must be recognised that in any population of clients, there will be varying motivations and different levels of willingness to co-produce (Kidder and McEwen 1989). Some will be happy to contribute, others will be averse to doing so, whereas those in-between will be inclined to co-operate to a degree, but contingently upon the rewards they anticipate they will get as a result of contributing. The evidence from the cases we have examined is that the latter will usually be by far the largest group, with the eagerly compliant and the resistant constituting small minorities.

In this context, sanctions have three functions. First, when they are visibly wielded, sanctions deter the *resistant* clients from non-compliance, or punish them when they fail to contribute. This has the effect of forcing them to engage in some co-production, at least in a grudging manner, if not enthusiastically. More intensive application of deterrents can enhance the quantity and quality of this contribution. However, this elaborate enforcement is also costlier. The organisation must maximise the impact of its sanctions on resistant clients while minimising the cost of doing so.

Second, sanctions are what Ayres and Braithwaite (1992, 47) call a 'spectre in the background' for *contingently compliant* clients, enabling appeals to intrinsic and normative motivations, which tend to generate trust and therefore co-operation, to occupy centre stage. Among the contingently co-operative clients, therefore, there will be a latent

awareness that the organisation is able to apply sanctions, but because this ability is displayed in a low-key fashion, and instead clients are offered positive things such as responsive service treatment or the realisation of purposive values, it will not provoke their resentment. At the same time, it underscores the non-material rewards with an underlying sense that co-operation is also in clients' material self-interest. This sense is not borne of specific, precise calculation, but is in the background as a 'spectre'. Sanctions therefore reinforce non-material rewards and the social exchange process through which they operate.

This relates to the third function of sanctions, which also strengthens the role of non-material rewards, especially where public value is being produced: enforcing sanctions against the non-compliant gives a guarantee to the potentially co-operative that the process to which they are contributing is fair. It reassures them that other clients are also obliged to contribute their fair share of time and effort, and that they are not 'suckers' co-producing more than the rest. In this context, sanctions provide the means for the utilisation of the important normative value of distributive justice.

In summary, sanctions are an alternative to exchange for those clients who are wilfully resistant to co-producing. Enforcement acts upon the material self-interest of these clients, to force them to comply, if only reluctantly. For this category of clients, the exchange perspective is of minimal validity, and to that extent is a qualified one. But at the same time, if applied subtly, sanctions help to reinforce the use of non-material rewards for contingently co-operative clients, who make up the great majority. For these clients, the exchange perspective on why clients co-produce is not undermined but enhanced by the need for sanctions.

Eliciting co-production (2): Increasing clients' ability to contribute

For clients to co-produce, they must not only be willing but also be *able* to do so. Their capacity to perform co-production can be enhanced by either of two means. One is to simplify the work they are to perform. This was exemplified in the case of Australia Post customers, whose task of writing postcodes correctly was made easier by the printing of four orange squares on envelopes. It was also demonstrated in the case of taxpayers. All the tax authorities have attempted, with varying degrees of success, to lessen the complexity of the tax return process, by rationalising the tax laws, simplifying the return forms, and making

lodgement easier with electronic lodgement service. In both cases, the use of technology appears to have been an important factor in reducing the complexity of the co-productive work.

The other means of augmenting clients' capacity to co-produce is to enhance their own competence to do so by providing them with information, skills, and knowledge to assist them to do the work. This was also an important device in the tax case. Tax authorities placed considerable emphasis on upgrading their client service, information, and assistance, manifested in such measures as the revamping of public enquiry services and the increased use of information brochures and 'do-it-yourself' kits.

Enhancing clients' competence to co-produce was even more important in the case of the long-term unemployed. These clients were provided not only with information, but also with extensive training, in labour market programs. This was because their ability to obtain jobs was very much constrained by both their lack of job search skills and their lack of job-readiness. The former was addressed through job search training and job clubs. The latter, which was in turn partly a function of their lack of marketable skills, was addressed through basic education or vocational training programs.

However, the long-term job-seekers' need for training was also a function of the complexity of the task they had to perform. They needed to be able to react and adapt to the variety of situations they were likely to encounter in their ongoing search for work. This called for *skills* in job search, as well as vocational skills. Simply providing them with *information* would not have sufficed.

This suggests a further proposition about when to use particular devices for eliciting co-production: the more difficult it is to specify and monitor the co-productive work, the more the clients' skills and knowledge need to be enhanced. Whilst the task for the long-term unemployed and that of taxpayers are both relatively difficult to prescribe and check, that of the unemployed is arguably more difficult. They therefore have a greater need for enhancement of their competence than do taxpayers. Indeed, as Mintzberg (1979b) argues in the context of organisational control processes, the standardisation of inputs (such as skills) through training is an alternative to the standardisation of processes or outputs through specification and monitoring.

Enhancing clients' abilities to co-produce can also have a positive impact on their willingness to do so. By lowering the costs to the client of contributing, the simplification of the work positively affects their material self-interest, and at the very least reduces their reluctance to

co-operate. More significantly, enhancing clients' skills and knowledge can also impart intrinsic rewards. For example, labour market programs not only upgrade job-seekers' skills but also boost their self-esteem and sense of self-efficacy. Offering better client service to taxpayers not only makes it easier for them to comply but also improves their sense that they are being treated respectfully and fairly.

The role of third parties

A notable fact about the cases that we have examined is that they all involve the participation of one or more third parties who can assist (or in some cases hinder) the organisation in various ways in its efforts to elicit co-production from its clients. In the case of letter-senders, Australia Post needed to persuade stationery manufacturers to print postcode squares on envelopes, while all three postal services also found it useful to persuade bulk mailers, such as financial institutions and utilities sending out invoices, to provide addressed return envelopes to their customers. In the case of the long-term unemployed, the contracted providers of labour market programs had an important impact on the desire and ability of clients to make themselves job-ready and obtain work. Finally, tax agents have a significant and increasing impact on the level of compliance of taxpayers, and all three tax authorities have devoted considerable attention to encouraging and assisting agents to play a positive role. All these third parties in one way or another constitute intermediaries between the organisation and its clients. They therefore have the potential to influence the co-production exchange, for good or ill.

A suggestive way to think about these intermediaries is to compare them to the distribution channels on which private sector firms rely as avenues for selling goods to their customers. But, in fact, the analogy between private sector distributors and the third parties in the three cases is a dubious one. Instead of receiving revenue in return for services, public sector organisations in co-productive relationships seek clients' time and effort to help produce the service. Moreover, only one of the third parties – contracted providers of labour market programs – is a channel for onward distribution of services like private sector distributors. Stationery manufacturers are more like upstream suppliers of clients, whereas tax agents are in essence their advocates. But there is one quite useful respect in which they are analogous.

One reason private sector firms make use of distributors is because they are closer to their ultimate customers. They have a better knowledge of

customers' characteristics and needs in the various geographic or demographic segments in which they operate, and therefore they are in a better position to persuade them to engage in the market exchanges which the firm seeks to maximise.

This is the essentially useful point of the comparison. We have seen that public sector organisations in co-productive relationships with their clients seek to exchange the latter's time and effort for various types of positive rewards. We have also seen that no single incentive works well in all situations, but rather that different types of situations call for different incentives for co-production. This puts a premium on better understanding of the different types of clients and the circumstances in which they co-produce. Third parties, who are closer to the clients than the government organisation, are potentially more likely to have this knowledge, and to have closer relationships to the clients in question. Consequently they can play an important role in fostering co-production.

This can be related to the overall theoretical model through the concept of circular or generalised exchange, as discussed in Chapter 2. Third-party agents are in exchange relationships, either univocal or reciprocal, with public organisations and with clients, and in some cases with the citizenry at large. For example, the tax authority bestows legitimacy and convenience on the tax agent, who in turn provides advice and even persuasion to taxpayers, who in turn comply with tax obligations.

Conclusion: The basic exchange relationship

In each of the three cases analysed, there is an *exchange* relationship between the organisation and its clients. When the clients co-produce, the terms of this relationship are broadened beyond that which exists when the client is simply a recipient of the organisation's services, as Table 8.5 shows. On the one hand, the clients donate additional time and effort, which are valuable to the organisation because they enable it to realise its purposes better. On the other hand, the organisation provides or offers tangible or intangible values – material, intrinsic, solidary, or expressive – to clients, in addition to the services it delivers, to induce them to co-produce. As the work being sought from clients will vary in its complexity, so too will the rewards they seek. Sometimes a specific economic exchange will suffice, but more often than not the eliciting of co-production will be a more diffuse social exchange, in which the client receives non-material rewards. The more public the

Table 8.5 Terms of exchange between organisation and client in the three cases, without and with co-production

Case		Organisation provides	Client provides
Postal services	Without co-production	Letter delivery	Money (price of stamp)
	With co-production	Letter delivery + Material rewards (faster service, falling real price)	Money (price of stamp) + Machine-readable postcodes
Employment programs	With less co-production	Unemployment benefits Job referrals Labour market programs	Co-operation with administrative requirements
	With more co-production	Unemployment benefits Job referrals Labour market programs + Intrinsic rewards (interviews, counselling, LMPs → ↑ self-esteem, sense of purpose, capacity to secure jobs)	Co-operation with administrative requirements + Enhanced job-readiness + Active job search
Tax administration	With less co-production	Some enforcement (perceived as arbitrary and inequitably applied)	Returns lodged less frequently and less accurately
	With more co-production	Intrinsic rewards (respectful treatment) Public value (enhanced perception of value of govt and of distrib'l equity of tax system) Assistance/information Simpler system	Returns lodged more frequently and more accurately

value received by the clients through co-production, the more important will be sociality or expressive values in eliciting their contribution.

In deciding whether to enter into or remain in this co-production exchange, the organisation and the client each weigh the perceived

benefits against the perceived costs of doing so, relative to those of alternative means of pursuing their purposes. A government organisation prefers to elicit co-production from clients when the perceived net public value of doing so – its effectiveness in achieving public purposes relative to the costs of mobilising it – is greater than that of utilising production by the organisation's staff. Similarly, clients will contribute time and effort to facilitating organisational purposes if they believe it will result in greater net value than refraining from doing so.

For each party, this is not necessarily the perfectly rational calculus of utility theory, but it is a calculus nonetheless. There may not be complete knowledge of all the relevant benefits or costs, nor of their precise magnitude, but those which are *perceived* are taken into account. Moreover, the benefits and costs may not necessarily accrue to the party itself, but rather be valued in terms of their impact on a social group or the society as a whole. Nor will they necessarily accrue immediately, but rather be seen as deriving over time. The point is that both parties compare the net value, as they define it, of the co-production exchange with other ways of achieving their goals.

More than a few of these relationships entail *generalised* exchange, in that parties other than the organisation and the client are also involved. Specifically, the third parties who were considered in the previous section may form part of a more extended circular exchange in which the net result is that the clients have contributed time or effort and the organisation has contributed things valued by the client, via the intermediation of the third party.

Thus, the notion of exchange, which is derived from exchange theory and which informs the literature of customer service, can be applied to the sphere of co-production. Similarly, the idea of co-production can broaden the exchange perspective underlying marketing and customer service concepts.

However, the exchange perspective must be qualified to the extent that an element of client co-production in some organisations, which are engaged in securing compliance with legal obligations, is prompted not by exchange but by sanctions. Where coercion forms the backdrop, the exchange relationship is circumscribed. But within the boundaries framed by compulsion, compliance is more likely to be voluntary if clients receive non-material rewards, and to that extent can be conceived as part of an exchange relationship.

9

Managing for Client Co-production

So far, the focus of this book, by definition, has been on a phenomenon external to public sector organisations. But it has left unexplored what it means for the *internal* management of those organisations. This chapter sketches how key management activities and organisational processes might need to be reoriented to better utilise client co-production.

Client focus

The starting point of managing for client co-production is the notion of client focus. If clients are the object of attention in this process, then understanding their needs and seeking to meet them is a basic precondition for co-production. But the co-production aspect calls for some recasting of this imperative. Not only does it require some amendment of the specific devices of client focus – for example, of needs analysis, segmentation, structure, and culture – but it also brings in a further, parallel dimension. To the question, ‘What do clients want from our organisation?’, a prior question must be added: ‘What does our organisation want from its clients?’ This in turn calls for a deeper understanding of the value the organisation is seeking to create and of the processes by which it produces that value. Analysing these phenomena enables more sharply targeted answers to the question of how to comprehend and serve clients. What follows considers first what the organisation needs from its clients, then how the organisation might tailor its internal processes to better meet clients’ needs and thereby elicit co-production from them.

The organisation’s requirements of its clients

Understanding value

Clarifying the value the organisation is seeking to produce is important to client co-production for two main reasons. First, it serves as a

reference point for the analysis of the production process, which in turn enables identification of which parts of that process might usefully be carried out by clients. It directs attention to the basic question of ‘What are we really trying to do here?’ This implies a need to be clear about outcomes or ultimate purposes rather than inputs, processes, or outputs. As suggested in Chapter 1, an orientation to outcomes is likely to call forth more opportunities and requirements to tap different sources of co-production in addition to internal organisational production. For example, the goals of programs for the long-term unemployed can affect the co-production strategies they utilise. If the outcome measure is ‘numbers of clients placed in paid employment and remaining in those jobs for three months’ then probably a ‘work-first’ strategy is most appropriate. If, however, the goal is to maximise the numbers of clients placed in stable, sustainable employment, then an ‘education first’ strategy is likely to be more effective. The latter would, of course be more difficult to measure, but innovative approaches to doing so are starting to emerge from employment agencies around the world.⁴⁵

This does not mean that inputs, processes, and outputs are irrelevant to the organisation’s ‘value-proposition’. To promote a valuable purpose through an unethical, inefficient, or unattractive process is to diminish the overall value created. Value is almost always multifaceted, meaning that inputs and processes need to be balanced against ultimate outcomes to arrive at an overall calculus of value. But to be clear about the ultimate purpose is to enable the consideration of the value-implications of alternative production processes for reaching it.

Understanding the value to be created also adds clarity to the question of what appeals are being made to clients to elicit their contributions. One of the reasons why clients might co-produce, in addition to the material and non-material incentives that the agency might offer them, is that they identify with the purpose the organisation is seeking to realise. To the extent that the agency represents an appealing purpose – for example, helping to alleviate poverty or protecting national parks – clients may be more willing to devote time and effort to its work. This means that public managers might seek to adjust goals so that they represent an optimal balance of public value and appeals to the potential co-producers.

Analysing the production process

Having clarified the value to be created, the public manager is then in a position to analyse the ‘production process’ which leads towards that value. To talk of a ‘production process’ is to conjure up images of Fordist production lines in forbidding factories, with their standardised

products and soul-destroying work (see e.g., Gregory 1995, but see also Alford 1996), but that is not what is being proposed here. Instead, the focus is on the broader public production process, or 'public value chain', which can be defined as

All activities – internal and external to the organisation – which contribute to the creation of a specific valuable outcome, either positively or by reducing inhibitors.

This notion has antecedents not in Taylorism and Fordism, but in more recent ideas in both private and public sector management. Those from the private sector include the notions of the 'supply chain' (Handfield and Nichols 1999; Fredendall and Hill 2001) and the 'value chain' (Porter 1985), which encompass all the activities related to the flow and transformation of goods from raw materials through to the end user. Those from the public sector include the idea of 'program logic' (e.g., the progression from inputs through processes to outputs and outcomes) (see Pollitt 1990; Bouckaert and van Dooren 2003) and the related ideas of 'backward mapping' (Elmore 1980) and 'intervention logic' (Baehler 2002). Drawing on these notions and combining them with the idea of co-production, the public value chain puts forward a broader notion of potential contributors to public purposes than simply public organisations or their hired contractors, and a broader conception of what might induce them to contribute than money or compulsion.

Tapping co-production necessitates a series of steps in analysing the public production process for a given program or project, having initially identified the value to be created:

1. *Drawing a chain or 'web of causality'*, that is, a diagram of which factors seem most likely to cause – or more likely impede – the outcomes being sought, and then other factors which affect them in turn, and so on backwards through the chain to initial factors. This is a complex analytical task requiring judgement and iteration, but an invaluable discipline. A simplifying intermediate step towards this task would be first to identify the existing core internal production process leading to outputs and outcomes. It is then possible to look for contributors to and inhibitors of this internal process and from there trace other external contributing factors. To take a simplified example, the internal tax authority process for tax returns in earlier years would entail something like: (1) receipt of returns in incoming mail; (2) routing to the appropriate area of the tax

- office; (3) verification of claimed income and deductions; (4) calculation of the tax liability; and (5) issuing of a refund or invoice to the taxpayer. Setting out these steps enables identifying two of them (receipt and verification) as ones in which taxpayers play a role. From there, it is only a small step to identifying that employers might play a role in issuing annual income certificates and tax agents in entering details into the tax return form.
2. *Identifying key points in the chain to be influenced, and people associated with those points.* Pointers to what might be key points include elements which seem to be bottlenecks in the whole process; ones which affect a large proportion of the public; ones which are very costly; or ones which are simple to amend but powerful in impact. For instance, it might emerge that the activity of job search by long-term unemployed is seriously hampered by the difficulties they have in getting transport to potential employers, but this could be easily rectified with a small travel allowance.
 3. *Determining how to influence those people,* taking into account the various motivators and facilitators discussed earlier in this book, such as money, legal obligation, moral suasion, information, convenience, and so on. This would include weighing up the impact of the chosen influence methods against their likely cost. In effect, it would entail seeking to construct a value-creating exchange between the organisation and the co-producer, in which each was likely to gain more than they lost.
 4. *Integrating the specific choices of potential co-producers and influence methods into an overall operational strategy.* This would entail looking for synergies, conflicts, and other interactions between the choices and existing operations and seeking to sequence the activities in a coherent manner.

These steps require intuition and judgement as much as scientific analysis, but they can inform the intuitive insights by placing the possibility of external contributions more centrally into managerial deliberations. Their overall rationale is to clarify what the program requires of its clients, as well as of other potential co-producers. It also helps identify particular subsets of clients who may be worth paying more attention to as potential co-producers. This is taken up further in the discussion about segmentation below.

Meeting the clients' needs

Having identified what co-productive effort is desired from which clients, the more usual conception of client focus – understanding their

needs and seeking to meet them – comes into play. However, even though it is more recognisable, it still differs from the private sector model in important details.

Client needs/motivations

Private sector firms typically seek to understand their customers' needs through market research, which has evolved into a large and complex body of concepts and practices. 'Market research' is perhaps even more complex in the public sector, not least because of the wider array of motivations which are in play when people interact with government organisations. These often reflect higher-order values for which immediately expressed preferences are proxies. For example, the long-term job-seeker who asks to be notified of job opportunities in the general neighbourhood may appear to be concerned about transport costs, but in fact is really concerned about maintaining connections with a family network.

An important marketing concept for understanding the relationships between the attributes of services, the benefits perceived to derive from them, and clients' values is the *means-end chain* (Gutman 1982; Olson and Reynolds 1983). Means-end chains are based on a presumption that knowledge is organised in a hierarchy, with concrete thoughts linked to more abstract thoughts progressing from means to ends (Bagozzi and Dabholkar 2000). So knowledge about service attributes is linked to more abstract ideas about the consequences of those attributes, and these in turn are linked to more abstract values.

Means-end chains have great potential as research tools for public sector agencies because they offer a means of understanding what lies behind clients' response to a program. In many cases, the attributes of a program are fixed by the regulatory obligations. Take the case of health inspectors in the food service industry. However much a restaurant may like it to be different, the regulations specify that their food service premises must be inspected, they cannot be forewarned, they must address problems to stay open, and if they have serious problems they must close down until problems are fixed. A means-end chain allows the areas where the agency might have freedom to act to be understood. A means-end chain may reveal that the key values held by restaurateurs were 'creating a better experience for customers', 'building my reputation in the profession', and 'having a successful business'. Issues of supplier selection, quality recognition and control, and reduction of spoilage affect the first and last values, whereas the industry hearing about standards and performance affects the second and third.

Just as importantly, means-ends chains can help uncover ways of applying persuasion to obligatees, appealing to their positive motivations, without compromising the public interest. By unbundling clients' preferences and values into lower- and higher-order constructs, it may be possible to identify actions towards some clients which enhance their willingness or ability to comply without leaving the agency open to accusations that it is making it easier for recalcitrants to act opportunistically. Similar observations could be about beneficiary clients.

Service offerings

As in the private sector, the *service offerings* provided by public sector agencies stem from an understanding of clients' needs. But unlike the private sector, public agencies have to serve two types of publics: one comprises the individual clients (paying customers, beneficiaries and/or obligatees), who receive private value, whereas the other comprises the collective citizenry, who receive public value. The difficulty is that these publics do not necessarily have the same interests. Sometimes their interests may be in harmony, but quite often, they are in conflict – not only between the citizenry and clients but also between different client roles. For example, an employment agency might find that providing responsive service to a long-term unemployed person – in the hope of generating co-operation with agency goals – is at odds with the citizenry's expectation that the service be rationed subject to a budget constraint. A prison governor might find that fair treatment of inmates – who, it is hoped, would help co-produce the running of the prison – is at odds with crime victims' expectations of retribution against criminals and with the citizenry's desire for parsimony in prison expenditures.

These conflicts require intelligent fashioning of service offerings so that they tend to attract co-productive effort without detracting from public purposes. One way for managers to do this is to look for ways of adding value for clients without affecting value to the citizenry. Another is to envisage trade-offs between public and private value – such that both the citizenry and the clients each gain more than they lose from the agency's service offerings.

Segmentation

Segmentation is an important means of most effectively targeting resources to clients (Kotler 2003). It is a compromise between, on the one hand, giving everyone a unique service offering, which would be very expensive for the organisation, and on the other, giving everyone the same service offering, which would mean that most get something

less than satisfactory for their needs. Segmentation entails identifying the smallest set of subgroups which are distinctive, substantial, durable, and identifiable. Thus the organisation is able to provide a small number of different service offerings, which better approximate the needs of most clients, rather than a multitude of offerings tailored to each client or a single offering which suits hardly anybody.

Public sector agencies cannot choose not to serve or regulate certain clients, since they are charged with applying entitlements or regulation without exception to all those who are eligible under or covered by the law. However, within that arena they can treat some segments differently than others. For example, job-seekers with a prior history of being diligent in seeking out work might be given the benefit of the doubt in the application of mutual obligation requirements, whereas others might be subject to more rigorous scrutiny. In the regulatory sphere, voluntary compliers and recalcitrants can be seen as different segments, distinguished by their level of willingness to co-operate. Treating them the same way leads to failure: recalcitrants do not co-operate if treated as if they were voluntary compliers, whereas voluntary compliers withdraw co-operation if they are treated as recalcitrants. They need to be treated differently, with sanctions applied to recalcitrants and persuasion to voluntary compliers. Thus, research into attitudes towards compliance can be viewed as research into segments in the 'market' for regulation.

However, this is not the only basis for segmentation of clients. All marketing texts contain long lists of variables that might be relevant for segmenting a market (Dickson 1993; Kotler 2002), and the test of which segmentation variables are best is an empirical one; it depends on how well they work (Wind 1978; Aaker 1995; Bock and Uncles 2002). For example, the identification of language groups within a population might alert the agency to the need to disseminate information in those languages, thereby varying the offering to each group. Or it may be that differing educational levels correlate with different levels of capacity to comply, calling for targeted assistance programs to particular groups.

A common distinction in these lists of segmentation variables is between ones to do with characteristics or attributes – who the clients are – and others to do with behaviours – how they respond to agency offerings. In the co-production arena, it is likely that agencies will be more interested in the latter – for example, how clients react to particular service variables. That said, they may look for attributes that tend to go with particular behaviours – for example, a tax authority might

find that certain professions are more likely to engage in tax evasion or avoidance than others, and target them for particular attention.

However, even well-designed offerings, tailored to appropriate segments, cannot work if they are at odds with how other aspects of the organisation function. Private sector experience has shown repeatedly that customer focus does not arise by accident, and that knowledge of techniques is not sufficient (Pulendran et al. 1998). Although client focus rests on a program of activities, it must be supported by an organisational infrastructure that allows it to flourish. Three factors stand out as important in this respect.

Structure

The first is *organisational structure*. Client focus is a choice about organisational strategy, and if it is true that structure follows strategy (Chandler 1962), it cannot work without appropriate structures. Client focus is hampered by organisational structures which manifest limited connectedness and high centralisation (Jaworski and Kohli 1993). It requires relationships with clients that are managed appropriately, with staff able to share information about cases and case history, and able to co-ordinate responses to client problems. It usually requires autonomy in decision-making, interconnectedness in information dissemination, and collaboration in problem-solving. The autonomy enables local staff to make on-the-spot judgements about whether the beneficiary merits more program resources, or whether the obligatee should be treated as a complier or a recalcitrant, whereas the interconnectedness enables cross-checking of clients seeking to game the system, and the collaboration enables more complex clients' problems to be addressed expeditiously.

More specifically, organisations which configure their organisation structures to align with key categories of clients are better able to respond to those clients. Both the IRS and the ATO were restructured so that each set of clients corresponded with an operating division within the organisation whose sole responsibility was that category, and which comprised the necessary functions to provide the whole range of responses necessary for dealing with it. Within each division, communications between different functions related to the same category of client were rendered simpler, and it took less time for front-line officers to refer to other areas and get back to clients about queries that arose.

Culture

The second factor is *organisational culture*. In the commercial sector, research into market orientation has identified that the behaviours

of market oriented firms rest on a cultural foundation of values and beliefs. Talking about the closely related construct of market orientation, Narver and Slater (1998, 235) state 'If a market orientation were simply a set of activities completely disassociated from the underlying belief system of an organisation, then whatever an organisation's culture, a market orientation could easily be implanted by the organisation at any time. But such is not what one observes.' In organisations that accrue performance benefits from behaving well towards clients, staff behave in this way because they think it is 'the way we do things here' (Homburg and Pflesser 2000). Client focus is therefore not something grafted on to an organisation as an afterthought but is a permanent and pervasive part of its culture. It provides a unifying focus for the efforts and projects of individuals and departments within the organisation.

For example, a strong core belief of staff in the Australian Taxation Office prior to the 1980s was that 'they're all crooks out there' (Baird 1991). This was not conducive to treating taxpayers in a client-focused manner. It was an attitude which was reinforced by the actual work of tax officers, which overwhelmingly involved focusing on tax evaders, who therefore validated the officers' negative belief. Organisational change efforts under senior management since the mid-1980s have focused on recognising that most taxpayers want to comply with their obligations, and should therefore not be treated as though they were tax evaders, whilst targeting enforcement and sanctions at the minority who were non-compliant.

Performance measurement and budgeting

As we have seen, client co-production seems to sit most comfortably with a focus on outcomes. This has implications for the performance measures and budget allocations to which agencies are subject. Public managers accustomed to clearly measurable outputs and well-defined budgets are uneasy when they are handed responsibility for achieving outcomes. 'How can we be held accountable for outcomes,' they cry, 'when we don't have authority over all the factors which affect those outcomes?' – a concern especially relevant to areas which rely on external co-producers. They also worry about the fact that outcomes can sometimes be hard to measure, thereby leaving them open to disagreement about how much they have achieved.

On the performance monitoring side, measurement of outcomes will always be difficult (Carter et al. 1992; Alford and Baird 1997). One way to break down the difficulties, however, is to bring external factors explicitly into consideration. This can be done by utilising the analysis

of the production process referred to earlier. Instead of, or perhaps in addition to, measuring performance of ultimate outcomes, the organisation's specific activities directed towards sponsoring co-production can be measured. Thus, while it may be hard to hold an employment agency to account for falling short of its targeted number of placements of job-seekers in stable employment, it should be feasible to measure the performance of what we might call 'co-production-enhancing outputs' – activities directed towards encouraging long-term unemployed into basic education, vocational training, or job search.

The budgeting issue, while not difficult to address conceptually, is a challenge politically. It is not technically difficult to introduce a budgeting system which makes allocations and requires financial reporting, for outcomes rather than inputs, processes, or outputs. But such changes can only occur at the level of a whole government, which may have good reasons to retain a budget system oriented to categories other than outcomes. The sheer variety of types of government activity means that reaching agreement on categorical formats will always be difficult. An alternative for public managers is to enter into more or less formal agreements with other budgeted entities to devote certain proportions of their funds to jointly agreed co-production activities.

Conclusion

Co-production involves the identification and garnering of external contributions to the achievement of organisational purposes. This in turn demands certain things of the organisation itself. Not only does it need to be concerned about what clients need and how to satisfy those needs, but it also needs to consider what the organisation needs of its clients. The body of concepts and techniques developed in the private sector for addressing clients can help in this endeavour, but only if they are adapted and modified to take account of both the imperatives of the public sector and the peculiar demands of co-production.

10

Implications

Introduction

This book has proposed a theory of a very specific domain: co-production by public sector clients. In the process, it has addressed a gap which is manifested at the point where three fields intersect: co-production, public sector client service, and legal compliance. Consequently, it has indirect implications, since each of these fields is concerned with phenomena adjacent to client co-production. This chapter considers these implications.

Implications for co-production

The most basic implication of the present analysis for the wider co-production field is that there are different types of co-producers. Not only do people co-produce as volunteers or as citizens, but they also co-produce as clients. Clients differ from volunteers in that they 'consume' outputs from the organisation. They are analogous to the organisation's buyers, whereas volunteers are analogous to its suppliers. In pure form, clients differ from citizens in two ways. They express their preferences as individuals, whereas the citizenry engages in processes of political representation and deliberation in an effort to articulate a collective will. Further, clients consume some private value produced by the organisation, whereas the citizenry 'consumes' public value.

The client therefore has a particular relationship with the organisation, which is different from that of the volunteer or the citizen: even without co-production, it is an *exchange* relationship. When a client does co-produce, the terms of the exchange are broadened. In return for a range of tangible and intangible values, the client contributes time

and effort towards the production of the service (in addition to whatever he or she contributes as a client per se, such as money).

This broadened exchange perspective is the distinctive insight to be derived from consideration of clients as co-producers. It acknowledges that the client's contribution – or at least any contribution beyond minimal compliance – cannot be induced solely by coercion, but rather must be at least in part voluntary. To prompt clients' willingness to co-produce, the organisation must offer them something of material, social, or normative value. In return, the organisation benefits from lower costs or higher quality service, or in some other way.

However, this insight may also have indirect implications for co-production more broadly conceived. Although people other than clients do not consume private value delivered by the organisation, at least part of their interaction with the organisation can be conceived as an exchange when they co-produce. For example, when volunteers donate time and effort to a municipal 'Meals on Wheels' service for elderly homebound people, they do so partly or even largely for reasons which have little to do with how the council behaves towards them; instead, they are motivated by social norms or their own moral values to do so. But at the same time, their inclination to do so will be heightened by the council staff's demeanour towards them, such as being treated respectfully or being given information or advice about how to perform the required tasks. In other words, their desire to contribute will be increased by intrinsic rewards from the organisation.

Applying an exchange perspective to co-production by people other than clients has the potential to address three shortcomings in the wider co-production field, identified in Chapter 1. First, it addresses the issue of when it is appropriate for a government organisation to utilise co-production. The only substantial contribution so far – from the public choice school – is inadequate, in that it focuses only on the costs of co-producers relative to organisational co-production. An exchange perspective suggests that in deciding to make use of co-production, an organisation focuses on the terms of the exchange – not only on what it must give to tap co-producer effort, but also the benefits received from that effort.

Second, the exchange perspective adds to the insights on what prompts people to co-produce. In addition to the three motivators identified in the initial flurry of interest in co-production – material, solidary, and expressive incentives – it points to two additional factors: intrinsic rewards, and enhancing co-producers' ability. Moreover, it makes more explicit that no single motivator works best in all situations, but rather

that particular motivators are effective in particular circumstances. These contingencies may not be the same for co-production by non-clients, but an acknowledgement that people's willingness to co-produce is contingent offers a useful starting point for further thinking.

Third, the exchange perspective provides a way of addressing the question of whether co-production includes compliance. As Chapter 2 argued, and the taxpayer case attested, compliance is not necessarily coerced. Where it is at least partly voluntary, and also entails positive actions rather than passive abstention from wrongdoing, compliance constitutes co-production. That element of compliance which is voluntary can be conceived as part of an exchange – for example, where a regulated firm installs safety equipment in response to advice and assistance from a government inspector. At the same time, that element of the compliance which is coerced – for example, that which is in response to the risk of a heavy fine – is not part of any exchange. Consequently, the question is not whether co-production includes compliance, but rather the reverse. Co-production is actually a subset of compliance.

Implications for public sector client service

The exchange perspective is adapted, of course, from the public sector client service field, or more accurately from the services marketing approaches which inform it. The theory advanced in this book has implications for this field in its turn.

Most directly, it widens the notion of exchange even beyond that advanced in the broadened conception of marketing. Specifically, it points to the fact that public sector organisations and their clients engage in a broader type of exchange than that of money, consent, or passive compliance in return for goods and services. The client can also offer positive productive effort, while the organisation can offer solidary and normative incentives as well as material ones. Moreover, this exchange can be either specific or diffuse in nature. Indeed, the more it focuses on broader values such as sociality or expressive values, the more likely it is to be diffuse, with little direct transactional relationship between the two parties. Researchers have paid almost no attention to these important aspects of the organisation–client relationship in the public sector.

At the same time as the theory advanced here suggests an extension of the notion of exchange, it also points to an important limitation on it in the public sector context: the legal compliance function of the state.

As discussed above, compliance is partly voluntary exchange, but partly coerced. To the extent that it is coerced, there is no exchange between the organisation and the obligatee. This is a phenomenon which private sector marketing has found difficult to incorporate into its conceptual framework.

The qualified exchange perspective put forward in this book suggests how coercion might be properly situated in relation to voluntary exchange. This is primarily a matter of distinguishing among obligatees with differing degrees of willingness to comply with co-productive obligations. As argued in Chapter 2, for those resistant to complying, coercion constitutes a deterrent which is not part of any exchange. For those who have some degree of willingness to comply, coercion constitutes a reserve backdrop, enabling appeals to expressive values to occupy the foreground. But as the taxpayer case illustrated, sanctions also mobilise clients' willingness to co-produce in other ways. When applied to wilful non-compliers, they signal to the contingently compliant that the program is fair, and thereby sustain or promote their voluntary impulse.

Implications for legal compliance and regulation

Again, the most direct implication of this book for legal compliance and regulation concerns the conceptual gap which it shares with the other two fields: the neglect of clients as co-producers. The analysis has demonstrated how one form of compliance – the voluntary performance of positive actions – logically constitutes co-production by clients, and explored its dynamics directly in the taxpayer case and indirectly in the others. The field to date has paid almost no attention to this form of compliance. Yet explicit consideration of this phenomenon may enhance understanding of legal compliance and regulation in two ways.

First, to conceive of compliance as contributing to a 'production process' (very broadly defined) is a means of relating compliance to its ultimate purposes, rather than seeing it as something to be done for its own sake. To ask what value is being created in this process is to raise the possibility that there may be some other means of achieving it besides applying sanctions.

Second, understanding the production process in question enables a finer delineation of the specific compliance behaviours sought by the organisation. It may find on closer analysis that its clients need only comply with certain aspects of the rules to enable the valued outcomes

to be achieved. It may also find that eliciting compliance with some of the co-productive obligations is best achieved with normative appeals, whereas with others sanctions are necessary. It can thereby deploy its compliance tools more effectively, using the 'right tool for the particular job'.

More generally, to conceive of obligatees as clients, from whom one is trying to elicit positive contributions, is to pay attention to the insights which the broadened exchange perspective discussed in this book offers to the field of compliance. It is true that the legal compliance research has extensively considered ways of motivating compliance other than sanctions, as Chapter 2 highlighted. Thus, writers in this field have recognised the roles of intrinsic rewards, sociality, and expressive values. They have also addressed the need to distinguish between wilfully resistant, contingently compliant, and law-abiding citizens in applying compliance tools. All of this might benefit from the tools of the broadened conception of marketing concerning segmentation of clients and the delineation of specific benefits to them of services. In other words, to the extent that engendering compliance is a matter of treating obligatees as clients, the legal compliance field might be enhanced by the insights of the marketing discipline.

Further research

Because of the newness of this subject, the theories advanced in this book have limitations. Most importantly, they are limited by the small number of cases on which they are based. One consequence is that we have only a general impression of how widespread the phenomenon of client co-production is. It appears to be fairly common, but we don't yet know how common. A basic research task, therefore, is to scope out the extent and depth of client co-production across the public sector.

A second consequence of the small number of cases is that while the theories make sense of the facts observable in them, they may only be valid for those particular cases. This has implications both for theory-building and for theory-validation. From the point of view of theory-building, there is therefore a need to replicate the research described in this book for a considerably larger number of cases. More importantly, from the point of view of theory-validation, there is a need to test the theories against qualitative and quantitative empirical data.

On the one hand, more investigation is needed into the benefits and costs of client co-production to public sector organisations, and the circumstances in which these accrue. In particular, it would be

useful for systematic data on cost and effectiveness in organisations utilising client co-production to be compared with those for organisations not doing so. Alternatively, 'before and after' comparisons could be made for organisations which introduce or expand reliance upon client co-production. This data would have to be both quantitative and qualitative, given that some of the benefits of client co-production go beyond costs and outputs. On the question of circumstances, qualitative research is needed into the reasons organisations make use of client co-production, in samples of agencies selected to compare possible independent variables, such as organisational strategy, client types, organisational culture, political environment, public sector context, budgetary constraints, and so on.

On the other hand, more research is needed on the factors prompting clients to co-produce – both motivators and facilitators. A limitation of the research in this book, as explained in Chapter 4, is that the views of clients themselves were obtained from secondary sources, that is, from survey, interview, focus group, and experimental research with clients. These secondary sources are quite extensive in their coverage, but the data they contain was compiled for a variety of purposes which only incidentally coincide with those of this study. More substantial quantitative and qualitative research, based on interviews and field experiments, is therefore needed to ascertain how clients themselves view invitations to co-produce and how they experience the process of doing so.

A new phase of public management

The ramifications of client co-production are not confined to the various bodies of research relevant to public sector management. It also has potentially significant implications for the *stage of evolution* of public management. The need for client co-production challenges some of the assumptions on which previous models of public management have been based. This is true not only of traditional public administration but also of its modern incarnations, ensuing from two great waves of change since the 1970s.

One was what has variously been termed 'managerialism', 'corporate management', or the 'new public management' (Hood 1991; Boston et al. 1996; Considine and Painter 1997; Hughes 2003). Exemplified by developments such as the Financial Management Initiative in the United Kingdom in 1982 (Pollitt 1990) and the Financial Management Improvement Program in Australia in 1984 (DoF/PSB 1984), its characteristic structure

was one where semi-autonomous divisions, each responsible for a group of outputs, reported to a small but powerful corporate headquarters. Its key co-ordinating mechanism was performance monitoring, which enabled the corporate centre to dictate output requirements and allocate resources but leave divisional managers to act flexibly in how they achieved the set goals (Alford 1998).

The second wave was contractualism, as exemplified by the British 'Next Steps' initiative in 1988 (Walsh 1995), New Zealand's public management reforms in the late 1980s (Boston et al. 1996), and Vice-President Gore's National Performance Review in 1993 (Gore 1993). This took the logic of managerialism a step further, calling for a structural separation between the policy-making centre and contracted service-delivery agencies, in an arm's length 'purchaser-provider' contractual relationship, with the provider being either a public or a private sector organisation subject to competition (Osborne and Gaebler 1992, ch. 1; Jordan and O'Toole 1995).

However, these two models are founded on an inadequate conception of how the provision of public services occurs. They both see public services in terms of them being *delivered to* members of the public *by* government organisations or their contracted agents. In other words, they conceive of the organisation as the producer and the client as the recipient. The latter may be active in advocating levels or types of services, but is passive in their delivery. What is inadequate about this conception is that in some types of public sector activity, value cannot be created or delivered unless the client actively contributes to its production. In other words, the necessity of client co-production in some government activities challenges the logic on which modern public sector management is based.

First, the inadequacy of the 'organisation-as-deliverer, client-as-recipient' conception points to deficiencies in some of the characteristic tools of the new public management which are grounded in this conception. Performance monitoring, for example, typically neglects the important contribution to performance that clients might make. Separating policy/purchasing from service-delivery devalues the potential contribution to delivery of the policy-maker/purchaser. Framing contractual specifications in terms of outputs plays down the potential contribution of clients to achieving *outcomes*.

Second, client co-production calls for a recasting of the roles of public sector staff. To the extent that co-production is necessary, public servants' jobs are not simply about producing services. In addition, *their job is one of influencing clients to co-produce*. Not only are they suppliers

of services, but also they are purveyors of motivators and facilitators to clients, to encourage them to contribute to production. This is likely to call for different kinds of skills on the part of the staff, such as those of client communication, negotiation, advice, and consultancy.

Third, client co-production suggests a broader conception of government – not only as producer, purchaser, regulator, and subsidiser, but also as organiser, enabler, and catalyst of the efforts of individuals and groups. The history of public management in the past two decades has been a story of governments and their officials trying to find a new orthodoxy – the ‘one right way’ to manage in the public sector. Rather than trying to shoe-horn everything into a ‘one-size-fits-all’ model, we need a variety of approaches to governing, one of which is client co-production.

This book has put forward a theory of client co-production. Given the relatively unexamined nature of this phenomenon, it is a tentative theory, and the research on which it is built has limitations. But even if the theory proves in subsequent critical and empirical testing to be wanting, the substantive phenomenon it addresses is not without significance. To the extent that client co-production is present in some activities of government, the conventional logic of public management needs some amendment.

Notes

1. According to *The Macquarie Dictionary*, to 'comply' is 'to act in accordance with wishes, requests, commands, requirements, conditions, etc.'. 'Compliance' is 'the act of complying; an acquiescing or yielding' (second edition, 1987, 383).
2. If regular producers' wages are higher than consumer-producers' opportunity costs, then the least cost arrangement is all regular-producer input. Conversely, if consumer-producers' opportunity costs are higher, then it is more efficient to rely solely on them (Parks et al. 1004).
3. In his book *Street-Level Bureaucracy*, Lipsky (1980, 54–6) argues that clients of this type are 'nonvoluntary', since they receive 'essential services which citizens cannot obtain elsewhere'. But this formulation confuses client preferences for the *service* with their preferences for the *provider*. As was argued above, private sector customers may have a positive preference for the service, but they have little choice about the provider because it is a monopoly – as any Microsoft user will be aware. The concern of this analysis is with the preference for the *service*.
4. Moreover, sometimes the 'client' is unable to form or express a positive preference for a service. For instance, a severely intellectually disabled person is not able to 'choose' a disability service in the sense in which that term is normally understood. Nor is an unconscious car accident victim able to exercise consumer sovereignty as to which hospital or doctor he or she requires (Scrivens 1991, 20).
5. That this strand had wide support within the marketing discipline is attested by the fact that the seminal articles by Kotler and Levy (1969) and Kotler (1972) each received the award for best article of the year in the *Journal of Marketing*, the leading journal in the field.
6. Of course, even government schools typically receive ancillary funding from parents, either as semi-voluntary fees for books and equipment, or through fund-raising efforts by parent organisations.
7. The great majority of them take care to ensure that their kitchens and facilities are hygienic – not least because they are conscious of the adverse reputational impact of an episode of food poisoning. But some of them don't, and in these cases, the agency has the task of imposing obligations on them.
8. The multiple nature of these roles distinguishes this analysis from a debate going on, especially in Britain, about New Labour's 'citizen-consumers'. Blair government ministers deploy this term to imply a dual role (see Secretary of State and Minister for Welfare Reform 1998), but in fact its usage, as a number of critics have pointed out (see, e.g., Clarke et al. 2007) is usually intended to mean that the citizen relates to government primarily as a consumer of services (see Blair 2001). On the other hand, it is important to acknowledge that it is not a matter of us being *either* citizens *or* consumers, but rather that we are *both*, in different aspects of our relationships with government.
9. The names of which changed frequently in the period under consideration (see Chapter 6).

10. In the United States, postcodes are known as ZIP Codes.
11. The focus here is on the standard letter service, known as 'Royal Mail Letters' in the United Kingdom and 'first class mail' in the United States. Other aspects of postal services, such as parcels or counter services, are not considered.
12. 'ZIP' stood for 'Zone Improvement Plan'.
13. In 1970, the Post Office Department, whose head, the Postmaster-General, was a Cabinet member, was reorganised along business lines into an autonomous corporation, the US Postal Service, which was overseen by a Board of Governors, to which the Postmaster-General, no longer a cabinet officer, was accountable.
14. Peter Voss, the Board member in question, was convicted and jailed for four years (Tierney 1988, 88).
15. Australia Post is the trading name of the Australian Postal Corporation, a government business enterprise established in 1989. Before then it had been the Australian Postal Commission, a statutory authority created in 1975 from the previous Postmaster-General's Department.
16. OCR machines cannot distinguish the colour orange from white. The boxes, whose purpose is solely to ensure that customers write postcodes in a particular position on the envelope, are not meant to be read by the OCR machine, and hence are printed in orange.
17. An apparent improvement in the percentage of first class mail delivered 'on the day after posting' in the late 1970s turned out to mean 'the first *working* day after posting' and to mainly derive from eliminating Sunday collections (and hence working days) (Corby 1979, 50).
18. These standards were further tightened on occasions during the 1990s.
19. Recall was further aided by the fact that the first digit refers to the state in which the postcode district was located. By contrast, the first digit of the ZIP Code designates one of ten regions, covering several states, in the United States.
20. This chapter focuses on those who are unemployed but would like to work. Of course, there are some people who are not in the paid workforce for reasons other than inability to get a job, such as study, childcare, personal time, or doing volunteer work.
21. It had previously been the responsibility of the Employment Service, which was under the autonomous Manpower Services Commission.
22. NDYP applies to young people who have been on the JSA for six months. It also involves the Gateway period, but if no job is obtained the mandatory 12-month 'Option' period starts, requiring participation in a more intensive program, either (1) subsidised private sector work, with the prospect of an unsubsidised job at the end; (2) self-employment with grant assistance; (3) (for the less job-ready) employment in community projects; or (4) (for those lacking basic qualifications) full-time employment and training, provided it is likely to 'result in immediate employment'. If still unemployed after the 12 months, the unemployed person enters the Follow-through phase, which is similar to the Gateway period.
23. The CES was the job matching agency within the Department of Employment, Education, and Training (DEET), which was formed in 1987 as part of a restructuring of federal government portfolios, and was, as its name suggests, responsible for employment, education, and training.

24. DSS was responsible primarily for income support, not only for the unemployed but also for other types of welfare clients such as aged pensioners, sole parents, and the disabled. In 1991, DSS total staff was 19,900 (DSS 1992).
25. They were required to lodge their job search forms *in person* at the DSS office every fortnight, and from 1987 to provide more detailed documentation. People unemployed for two years would be interviewed by the DSS to review their situation (Cass 1988, 143).
26. From May 1987, the work test was expanded to an 'activity test' for benefit recipients aged 16 and 17 after six months, and for those aged 18 to 20 after 12 months. After an intensive interview at the CES, recipients had to accept either a job offer or placement in an LMP. From January 1988, this was integrated with a Job Search Allowance (JSA), which replaced unemployment benefits for 16 and 17 year olds, with parental income testing (Cass 1988, 26).
27. Under the Social Security Act of 1935, a number of state-based schemes were 'federalised' as Aid for Dependent Children (ADC), which became AFDC in 1962 as part of a process of broadening its coverage beyond white widows to cover African Americans, immigrants, and divorced, deserted, or unmarried mothers (Handler 2004, 23–4). This Act also established Unemployment Insurance (UI).
28. General Assistance (GA) was available in 42 states, but in nine of these only in some counties. Nine states had no GA at all (Uccello and Gallagher 1997, 2).
29. The Australian Committee on Employment Opportunities (1993, 103) cited DEET estimates that for every dollar spent on JOBSTART and JOBTRAIN, 60–64 cents were returned in social security and tax offsets.
30. In 2004, the Inland Revenue (IR), the primary tax authority in the United Kingdom, was merged with Customs and Excise to form Her Majesty's Revenue and Customs (HMRC). In this chapter, the term 'HMRC' is used generically, except where 'IR' was applicable at the specific time being referred to.
31. The definition of the shadow economy is problematic and much debated. Schneider and Enste (2000, 79) provide a useful typology that captures its key dimensions.
32. Founded in 1862 as the Bureau of Internal Revenue, it was reorganised and reconstituted as the IRS in 1952, following a Congressional probe into corruption and administrative shortcomings (see Thorndike 2001).
33. Self-assessment was introduced by Congress along with the income tax in 1913 (see Mumford 2002, 87).
34. Commissioner Charles Rossotti sponsored an inventory prior to Y2K, which found 130 different computer systems across the IRS.
35. In 1983–84, the ATO's staff of 16,000 included some 2200 assessors, 1400 staff engaged in moving and filing returns, and 800 staff opening and sorting mail. They received 9.3 million tax returns and issued 8.1 million assessments, including 4.9 million with refund cheques (ATO 1984).
36. 'Tax avoidance' is the minimising of tax by *legally* taking advantage of tax reduction loopholes in the tax laws. 'Tax evasion' is *illegally* failing to pay tax that is due in law. Practices on the borderline of legality have been dubbed 'tax avoision'.

37. By 1993, 60% of all individual returns were being lodged by ELS, and of these 93.5% were being processed within 14 days (ATO 1993b, 11).
38. Interestingly, the ATO's Second Commissioner, Peter Simpson, was invited to give a presentation about the ATO's reforms to the US Senate hearings on the IRS in 1997 (ATO 1997).
39. If a change of circumstances necessitates an increase in tax due, which could mean a substantial loss of income for the employee in the short term, the tax deductions are spread over a longer period according to schedules provided by HMRC.
40. There were no major changes to tax administration in the United States between 1982 and 1986, so this figure should be a reasonable approximation of the comparable year.
41. For surveys, see Roth et al. 1989; Jackson and Milliron 1986; Nagin 1990; Long and Swingen 1991.
42. Alm, Jackson, and McKee 1992 also consider the impact of positive inducements for compliance, such as lottery prizes and fixed rewards, in an experimental setting, and find them to be considerably more efficacious than increased audit rates or increased fines.
43. Schmolders (1970, 301–2) observes that in Latin countries, which typically have lower levels of tax compliance, the term for 'tax' is a variant of 'imposition' (e.g., *impot*, *imposto*, *impuesto*), whereas in Germany, the term is 'steuer', which means 'support', and in Scandinavia, it is 'skat', meaning the common treasure put aside for common purposes. Germany and Scandinavia have high levels of tax compliance.
44. World Values Survey, accessible at www.worldvaluessurvey.org. The specific question was 'Please tell me for each of the following statements whether you think it can always be justified, never be justified, or something in between:
 - Cheating on taxes if you have the chance (answers to be given on a ten point scale, 1 = "never justifiable" to 10 = "always justifiable").'
45. One example is Project Match, a program for very disadvantaged welfare-recipients which started in Illinois. Faced with a need to show results for government funders, Project Match devised a ladder of intermediate steps towards sustainable employment (e.g., volunteering, skills training, work experience, etc.) against which particular clients could be compared, with points allocated for different activities (see Herr and Halpern 1994). Another is the 'star ratings' system adopted by Australia's Job Network, to enable jobseekers to make more informed choices between private providers of services (O'Flynn 2007).

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