

2 The public sector

In order to understand the role of and rationale for shared services within the public sector, it is necessary to first look at the overall role of the state in society and at some of the main theories and recent developments in public sector administration and management.

2.1 Theory of the state

North developed a neoclassical theory of the state in which a ruler enters into a contract with his constituents. The ruler develops and enforces a – formal or informal – constitution that specifies property rights. “Since there are economies of scale in providing these services, total income in society is higher as a result of an organization specializing in these services than it would be if each individual in society protected his own property,” North noted.⁴⁴ As the supreme authority the ruler has the right to command and raise compulsory contributions from his constituents.

In the fashion of a discriminating monopolist, the ruler maximizes his rents subject to economic and political transaction costs. He provides goods and services to his constituents and charges each group a different price, e.g., through the collection of progressive income taxes. In order to collect taxes, the ruler employs tax collectors as his agents. This gives rise to principal-agents problems and reduces the ruler’s monopoly rents. The amount of the ruler’s rents will further depend on political competition, i.e. the constituents’ ability to install a different ruler who provides similar services (“voice”) or to emigrate to another state (“exit”).

North’s theory is equally applicable, with some qualifications, to an ancient kingdom and to a modern democracy. In a democratic constitutional state, citizens are the principals who authorize, through elections, some of their compatriots to act as their representatives and to administer their sovereignty. In contrast to a private principal-agent relationship, the agents exercise public authority and can ultimately exercise authority over their principals. The problem for the citi-

⁴⁴ See North (1981, p. 23).

zens is that there are information asymmetries between principal and agent before and after a contract is concluded. In addition, information is incomplete, i.e., the principal cannot be perfectly bound by rules but need to have some discretion to carry out activities. Hence, they must allocate their votes based on their representatives' promises *ex ante*, holding them accountable *ex post* at the polling place.

Downs has compared this competition of political actors for votes to the competition of economic actors for profits, both acting as rational maximizers of their respective objective function.⁴⁵ According to public choice theory, politicians are considered as entrepreneurs and voters as customers.⁴⁶ North argued that political markets are more prone to inefficiencies than their economic counterparts, because "the voter has little incentive to be informed since the likelihood that his or her vote counts is infinitesimal, there is no comparable enforcement mechanism, and competition is imperfect."⁴⁷ The result: an inherently flawed relationship between principals and agents which influences the provision of goods and services.

2.2 A historical sketch

When a government deems the provision of a good or service to be necessary for its citizen, it can either provide it in-house, or pay a third party to do so. This gives rise to debate over which sector should properly meet citizen needs. As Shleifer observes,

What kinds of goods and services should be provided by government employees as opposed to private firms? Should government workers make steel and cars in government-owned factories? Should teachers and doctors be publicly employed or should they work

⁴⁵ See Downs (1957).

⁴⁶ See Buchanan and Tullock (1962).

⁴⁷ See North (1997, p. 9). Olson (1965) demonstrated that rational actors have no incentive to exert effort to achieving group benefits that are shared equally between both contributing and non-contributing group members. Berle and Means (1932) applied similar reasoning in their analysis of the consequences of separating ownership and control in corporations, arguing that shareholders may have little incentive to engage in costly oversight activities.

for private schools and practices? Should garbage be picked up by civil servants or employees of private garbage haulers?⁴⁸

These are perennial questions, whose answer has in large part depended on the prevailing ideological point of view of the time.

In ancient Rome, for instance, the collection of taxes was sourced out to private parties and legions used their own defense contractors.⁴⁹ In the eighteenth and nineteenth century, during the Industrial Revolution, many countries handed over activities to the private sector. The operation of prisons, the maintenance of roads and street lights, public revenue collection, as well as the handling of garbage was contracted out to private sector firms in Britain. The construction and operation of railways and the storage and distribution of water was contracted out in France, and mail delivery was carried out by private operators in the United States and Australia.⁵⁰

The appropriate roles of public and private sector within a market economy were discussed by the mercantilists and by Adam Smith. The efficient allocation of economic activity became a central topic in the capitalism vs. communism debate in the 1930s. In a market economy, decision-making authority was distributed to decentralized individual agents, who were motivated by self-interest and coordinated by market prices. A socialist economy, on the other hand, allocated decision-making authority to a central planner, who made decisions based on information that was communicated by individual agents. Oskar Lange and Abba Lerner claimed that it was possible to replicate the incentive mechanisms of a decentralized system within a centralized economy. Ludwig von Mises and Friedrich von Hayek fiercely opposed this opinion, emphasizing the high com-

⁴⁸ See Shleifer (1998, p. 133). Shleifer also points out that the distinction between in-house provision and contracting out is irrelevant as long as the government can specify exactly what it wants. Building on Grossman and Hart (1986), Hart et al. (1997) develop an economic model for the choice between public and private provision if contracts are incomplete and, hence, ownership structure matters. See also the discussion of incomplete contracts in Section 8.1.2.

⁴⁹ See Kettl (2002, p. 53).

⁵⁰ See Kakabatse and Kakabatse (2000, p. 107 f).

munication costs and the limited information processing ability of the central planner(s).⁵¹

After World War II, even in the so-called market economies, the state assumed an important role in the provision of products and services. Sectors that were considered “strategic” to the interests of a nation were nationalized in a vast variety of countries. Mines, banks, insurance companies, steel plants, hospitals, and schools were frequently run by government employees.

In the beginning of the 1980s, recommendations by economists such as Milton Friedman were followed, and the privatization of formerly state-owned organization began, initially in the US and in the UK. With the collapse of communism in the early 1990s, telecommunications, energy, transportation, and financial services organizations were privatized throughout the world.⁵² During the global financial crises that started in 2008, governments assumed large equity stakes in formerly private financial services organizations and manufacturers to avoid their bankruptcy. Thus, the pendulum has swung back and forth from private to public control within recent history.

2.3 Public-private distinctions

In light of the to and fro of the allocation of economic activities to the public and private sectors, it is necessary to analyze the roots of the public-private distinction.

The word public originates from the Latin word for people and refers to the people of a community or state. In contrast, the word private derives from the Latin word for deprived, which refers to all matters deprived of public office.

One of the earliest, and most influential, works about the public-private distinction was written by Dahl and Lindblom.⁵³ They claimed that each society needs to choose between two different modes of social control. Firstly, activities can be governed through a polyarchy, a politically constituted hierarchy with a pluralistic power structure. Alternatively, they can be governed through decen-

⁵¹ See Mookherjee (2006, p. 367 ff). Also, Hurwicz (1969) compared the performance results of centralized and decentralized resource allocation mechanisms with regard to the extent of communication and information processing they encompass.

⁵² See Shleifer (1998, p. 134 f).

⁵³ See Dahl and Lindblom (1953).

tralized and autonomous organizational units which are coordinated by the price mechanism. They labeled the two organizational archetypes, agencies and enterprises, respectively. I will follow their denominations and henceforth use the term “agencies” for public sector organizations, and the terms “enterprises” and “firms” for private sector organizations. However, I will also continue to use the terms “public sector organization” and “private sector organization,” occasionally.

Approaches to differentiate between public and private organizations often focus on the following criteria: public good, ownership, funding, and public interest, described here in greater detail.⁵⁴

2.3.1 Public good

Economists have long claimed that the main justification for the existence of public sector organizations is the provision of public goods, e.g. national defense and law enforcement. Public goods are non-rival and non-excludable, i.e. consumption by one person does not make it less available for others and nobody can be excluded from its use. Non-rivalry and non-exclusiveness may lead to market failure because citizens have inadequate incentives to reveal their real demand and preferences and potential suppliers have inadequate incentives to provide them. Hence, the government steps in as the citizens’ agent and secures the optimal supply of the public good, either by producing it through public agencies or by sourcing it from private parties at a price that makes the provision attractive to the providers.⁵⁵

However, critics rightfully point out that many public sector organizations produce, like firms, not public, but private goods, such as, for example, health care or education.

2.3.2 Ownership

The most common distinction between public and private sector organizations focuses on ownership. Property rights theory, based on Roman law, differentiates the rights to use an asset (*usus*), to appropriate the asset’s return (*usus fructus*),

⁵⁴ See Perry and Rainey (1988, p. 184 f).

⁵⁵ See Davis and Hayes (1993, p. 148 f) and Gramlich and Rubinfeld (1982).

and the alienation of the form, substance, and location of the asset (*abusus*).⁵⁶ Full ownership includes all of these rights. It can be fragmented by transferring some of the rights to somebody else. The right to harvest a field or to sell its yield, for example, can be transferred to another person for a certain period of time.

Ownership of resources matters, because it affects incentives and changes the agent's behavior. With uncertainty and asymmetrical information it becomes, for example, costly to monitor the renter of the field, who has less incentive than the owner to maintain it. The following quote by Posner illustrates the importance of property rights:⁵⁷

Imagine a society in which all property rights have been abolished. A farmer plants corn, cultivates it, etc., but his neighbor reaps and sells it. After some such experiences the cultivation of land will be abandoned... The legal protection of individual property rights has the important economic function of creating incentives to use resources 'efficiently.' Transferability ensures that if the farmer is a bad farmer, someone who is more productive will offer him a price for the land slightly higher than what he could earn himself. Thus the bad farmer is induced to sell the land to the better farmer.

An important tenet of the so-called market economy is that government acts as an enforcer of private property rights.⁵⁸ Buchanan and Tullock pointed out that government provision of products and services, on the other hand, can only be justified by inefficiencies of private bargaining.⁵⁹ For public sector organizations, ownership rights cannot be transferred among individuals; for instance, one agency may be wholly responsible for sewage treatment regardless of competence. This restriction in the exchange of property reduces efficiency, as it inhibits the transfer to a more able individual.

Critics point out that ownership does not fully capture all the aspects of the distinction between private and public organizations. They claim that the underlying assumption that public ownership leads to more government control may

⁵⁶ See Furubotn and Richter (2005, p. 20).

⁵⁷ See Posner (1972, p. 27).

⁵⁸ Hobbes wrote that "... he that performeth first, has no assurance the other will perform after; because the bonds of words are too weak to bridle men's ambition, avarice, anger, and other Passions, without the fear of some coercive Power; which in the condition of here Nature, where all men are equal, and judges of the justness of their own fears cannot possibly be supposed." (1955 [1651], p. 89 f).

⁵⁹ See Buchanan and Tullock (1962, p. 47 ff).

be flawed, and that privately owned organizations may be subject to much stronger government regulation and control. Private subcontractors of military equipment that enter into government contracts, for example, may be strictly monitored, whereas some public sector agencies may actually operate relatively autonomously.

2.3.3 Funding

Wamsley and Zald differentiate between public organizations, private organization, and mixed or hybrid types.⁶⁰ Public organizations are owned and funded by governments, private organizations are owned and funded by private parties. Hybrid types are either publicly owned and privately funded or privately owned and publicly funded. Public utilities are an example of the first type, while government contractors are an example of the second type of hybrid organization. In recent years, there has been a trend worldwide to fund public sector organizations through user charges, fees, or market sales, as opposed to budgets set by political leaders.⁶¹

Moore points out the importance of revenue sources to organizations and highlights the quasi natural tendency of “attending to the desires and preferences of those who supply resources to organizations”, making agencies more responsive to the needs of funders.⁶² Consequently, private firms traditionally attend to the needs of their customers and public sector organizations to those of the politicians who determine their budget.

2.3.4 Public interest

Some researchers consider the impact an organization has on the public interest as a distinguishing criterion. Blau and Scott⁶³ differentiated between common-

⁶⁰ See Wamsley and Zald (1973).

⁶¹ See Moore (2000, p. 185).

⁶² See Moore (2000, p. 184 f). Moore points out that the willingness of others to pay for its services provides an organization with a *raison d'être*. He also contrasts public and private from non-profit organizations, where the organizational purpose is often derived from the fact that volunteers are willing to support the organization by donating their time.

⁶³ See Blau and Scott (1962).

weal and business organizations. Whereas the beneficiaries of the former are the public at large, the latter benefits first and foremost their owners. The problem with this approach is that the term “public interest” is very difficult to define and gauge. Moreover, most organizations impact the public interest, at least indirectly.

These four criteria provide a useful, if incomplete, platform from which to consider the distinction of services emanating from public versus private organizations.⁶⁴

2.4 Politics and administration

In this section, the roles of the two major decision-makers within the public sector, politicians and public administrators, and their interrelation will be analyzed. Politicians are elected for specified terms to serve as representatives of the electorate. Public administrators – bureaucrats – are charged with implementing policy on a day-to-day basis.

2.4.1 The politics-administration dichotomy

The traditional doctrine that guided the relationship between politicians and public administrators was heavily influenced by Woodrow Wilson, the future US President, who as a professor at Princeton University wrote that “administration lies outside the proper sphere of politics. Administrative questions are not political questions.”⁶⁵

Under this doctrine, politicians determined policy, craft laws, and decided whether public agencies were established to provide government services. They enacted statutes for public agencies to define their mission and objectives and provide operational guidance to administrators. They also oversaw the agencies’ operations to prevent misguided bureaucrats from aggrandizing themselves or performing activities beyond their formal mandate, carrying out their idiosyncratic ideas in the public guise. Politicians in turn were periodically held accountable for their actions by the populace at the ballot box.

⁶⁴ See Rainey and Chun (2005) for a more detailed analysis of the differences between public and private management.

⁶⁵ See Wilson (1887, p. 209).

Public administrators, meanwhile, were expected to perform the activities assigned to them effectively and efficiently, without questioning their mandates. Their task was “the execution of the public business.”⁶⁶ Their role was to execute a policy, if told to do so, but not to question whether the policy made sense. Administrators were not public entrepreneurs or leaders but bureaucrats and functional experts, whose responsibility it was to look downward towards the achievement of their operational duties, not upward, to question their orders.⁶⁷

This theoretical separation has served important purposes. Firstly, it guaranteed that only elected officials, who could be voted out of office, expressed the State’s will. Secondly, it prevented politicians from instilling partisan consideration into administrative procedures. Thirdly, it ensured that day-to-day operations were assigned to unelected officials who were more concerned with the appropriate conduct of their business than with the patronage of potential voters.⁶⁸ Freedom of political interference made it possible to hold administrators accountable for their work and judge them on efficiency grounds, just like their private sector counterparts. Gulnick noted that “(i)n the science of administration, whether public or private, the basic ‘good’ is efficiency.”⁶⁹

That the practical separation between politics and administration was less clear-cut was recognized early on, even by some of the strongest advocates of a clear distinction between policymaking and policy administration. Woodrow Wilson acknowledged that “the administrator should have and does have a will of his own in the choice of means for accomplishing his work.”⁷⁰ Frank Goodnow, considered the founder of American public administration and the first president of the American Political Science Association, wrote that, “(p)ractical political necessity makes impossible the consideration of the function of politics apart from that of administration.”⁷¹ However, a policymaking role for unelected officials was still widely considered undemocratic and questionable, with major

⁶⁶ See White (1929, p. 4).

⁶⁷ See Kettl (2002, p. 104) and Moore (1995, p. 17). Moore uses the metaphor of a town librarian who has to deal with latchkey children as a means of questioning the traditional doctrine that the purposes of a public organization can be set out clearly in statutes enacted by legitimized politicians.

⁶⁸ See Kelman (2008, p. 237 ff) and Hill (1992, p. 31).

⁶⁹ See Gulnick (1937, p. 191).

⁷⁰ See Wilson (1887, p. 212).

⁷¹ See Goodnow (1900, p. 24).

proponents of the instrumentalist view advocating “subservience” as the proper role of unelected toward elected officials.⁷²

After World War II, the politics-administration dichotomy came further under attack and was more and more considered as naïve.⁷³ It became evident that bureaucrats were widely involved in policymaking, not only in its implementation but also in its formulation. Administrative discretion was considered inevitable for most detailed work. Administrators inevitably had to make choices with political implications. Politics and administration increasingly became inseparable. In the tenth-anniversary edition of the *Public Administration Review* Gaus concluded that “a theory of public administration means in our time a theory of politics also.”⁷⁴

However, this shift came at a cost. Creating a “democratic administration” became increasingly more important than efficiency.⁷⁵ The view that public administration was different from business administration came to dominate the field and comparisons to firms became increasingly denounced. Public administration became more closely associated with public law than with business administration. Best practice in public administration no longer focused exclusively on improving government performance, but emphasized constraints, due process, democratic representation, and private rights.⁷⁶

2.4.2 Political control

Political principals who create a public agency and delegate managerial authority to bureaucrats are supposed to control them.⁷⁷ Thereby they can prevent “agency

⁷² See Finer (1941, p. 342). Finer argued that “the servants of the public are not to decide their own course; they are to be responsible to the elected representatives of the public, and these are to determine the course of action of the public servants to the most minute degree that is technically feasible (1941, p. 336).

⁷³ See Kettl (2002, p. 41 f).

⁷⁴ See Gaus (1950, p. 168).

⁷⁵ See Waldo (1952).

⁷⁶ See Kelman (2008, p. 237 ff).

⁷⁷ See the discussion of political costs in Sections 4.1.3 and 8.1.3.

drift”, i.e. avoid that the agency adopts policies which are inconsistent with their statutory mandates.⁷⁸

The problem for the principals is that agency managers become more knowledgeable about their job than politicians, and, hence, develop an informational advantage, and that oversight is costly. Weber pointed out that, “the political ‘master’ always finds himself, vis-à-vis the trained official, in the position of a dilettante facing the expert.”⁷⁹

Agencies can take actions that are not observable by the principals (hidden action) or they may have private information about their real costs or aptitude (hidden knowledge) that is unavailable to their political overseers.

Politicians can control bureaucrats via ex ante and ex post control mechanisms. Examples for the former are legal requirements about decision procedures and appeal processes, such as burden of proof, evidentiary standards, interest group subsidies, and hearings that are specified in the Administrative Procedure Act of 1946.⁸⁰ Examples for the latter include rewards and punishments such as budgets, recognition, and increased oversight.

In order to limit their costly oversight activities, politicians can rely on “fire alarms” to find out whether agencies are acting within their mandate. Interest groups sound the alarm and inform the politicians when agencies do not comply with legislative goals. In addition, citizens may also inform their political representatives about problems they encounter with agencies, a behavior sometimes referred to as the “decibel meter.”⁸¹

⁷⁸ See McNolcast (1999, p. 184). In addition to agency drift, there also may be political drift, i.e., a behavior in which a politician forces the agency to adopt policies that are inconsistent with their statutory mandate.

⁷⁹ See Weber (1978, p. 991).

⁸⁰ The Administrative Procedure Act of 1946 is widely considered the most important legislation for federal agencies. It aims at increasing fairness in administration operation and at ensuring that the policies enacted by Congress are implemented accordingly by public agencies (see McNolcast, 1999).

⁸¹ See Moe (1984, p. 767 f).

2.5 Government agencies

Given the important role of government agencies as potential producers and/or consumers of back-office services, the characteristics and idiosyncrasies of public agencies versus private firms will be analyzed in detail in this section.

2.5.1 Bureaucratic organizations

Niskanen observed that "...government(s), at least since the 19th century, have chosen bureaus as the dominant form of organization for the supply of government services."⁸²

The government – agency relationship traditionally has been that of a bilateral monopoly. The government buys the respective services only from the agency, and the agency sells its services only to the government.⁸³

Government agencies are usually bureaucratic organizations that have their own sets of rules and incentives. In this section, the main characteristics and advantages and disadvantages of bureaucratic organizations are summarized.⁸⁴

Definitions and characteristics

The term bureaucracy stems from the French word *bureau*, which can be translated as desk, or by extension, an office. It symbolizes the rule conducted from a desk or office. It is generally used as a collective noun for all public agencies or any large formal organization.⁸⁵

Bureaucracy can be both interpreted as an instrument and as an institution. In the former sense "(b)ureaucracy can be seen as a rational tool for executing the commands of elected leaders."⁸⁶ In this view, a bureaucratic organization can be assessed based on its effectiveness and efficiency to realize an externally determined goal. In the latter sense a bureaucracy is seen as an organization with its

⁸² See Niskanen (1975, p. 629).

⁸³ See Niskanen (1975, p. 618).

⁸⁴ See Hill (1992, p. 3 f) for a possible distinction between the terms *bureaucracy* and *administration* and between *bureaucracies* and *agencies*.

⁸⁵ See Hill (1992, p. 1) and Olsen (2005, p. 2).

⁸⁶ See Olsen (2005, p. 3).

own *raison d'être*. It derives its legitimacy from the obedience to the rule of law, the adherence of due process, and the application of professional standards. In this perspective, the actual result or efficiency of a certain procedure is considered less important than the following of appropriate steps.

In the public imagination, the institution bureaucracy frequently conjures up negative images of impersonal offices populated by time-serving and slow employees who are bound by myriad formal rules. This view is exemplified by Laski's classic description of bureaucracy in the *Encyclopedia of the Social Sciences*: "Bureaucracy is the term usually applied to a system of government the control of which is so completely in the hands of officials that their power jeopardizes the liberties of ordinary citizens."⁸⁷ The bad, sometimes even pejorative, reputation the term has acquired over the years stands in stark contrast with the virtues originally described by Weber: "The fully developed bureaucratic apparatus compares with other organizations exactly as does the machine with non-mechanical modes of production."⁸⁸

According to Weber, a bureaucracy was a formal-rational organization that contained the following key attributes: the hiring of employees based on merit and their subsequent life-long employment and training, a functional division of labor, a formal and detailed description of procedures and job responsibilities that was purposely impersonal, and a clear system of supervision and subordination with a unity of command.

Merton wrote that no "theory of bureaucracy" yet exists that adequately describes this type of organization.⁸⁹ Peters and Pierre maintained in their *Handbook of Public Administration* that this still holds true half a century later.⁹⁰ In the absence of a theory of bureaucracy, a set of propositions about bureaucratic behavior have been put forward. Some of the most famous are the so-called "laws" identified by Downs.⁹¹

⁸⁷ See Laski (1930, p. 70).

⁸⁸ See Weber (1978, p. 973).

⁸⁹ See Merton (1940).

⁹⁰ See Peters and Pierre (2003, p. 1 ff).

⁹¹ See Downs (1967, p. 262 ff). See also Nachmias and Rosenbloom (1980, p. 21 f).

Law of increasing conservatism

Downs claimed that an organization becomes more conservative the longer it exists, provided it does not go through a period of rapid growth or turnover. Bureaucracies are engrained with routines that are difficult to alter. A proposal to change them needs to get support from several decision-making layers in order to get approved and can be vetoed by any of them.

Law of increasing conservatism: As a corollary of the law of increasing conservatism, this law states that officials are prone to conserve what has already been achieved instead of trying out new approaches. Decision-makers who spent their careers in a given bureaucracy identify with the way things get done in their organization and are likely to conserve the status quo and resist change.

Law of diminishing control: Officials at the top of a bureaucracy cannot implement all their desired outcomes. Their orders and policies get distorted as they are passed on down the ranks. This problem exacerbates as their organizations gets larger.

Law of counter-control: As a corollary of the previous law, this proposition states that the greater the effort by superiors to control subordinates, the more efforts will be made by them to evade it. Having achieved a certain power, bureaucrats will hold on to it instead of relinquishing it to elected officials.

Law of control duplication: Downs stated that “any attempt to control one large organization tends to generate another.”⁹² This is exemplified by the fact that both the US President and Congress created their own Budget Office.

Advantages of bureaucratic organizations

Bureaucratic organizations have continued to persist in virtually all modern societies as a means to carry out governmental tasks, presumably because it has a competitive advantage over other organizational forms.⁹³ According to Weber

⁹² See Downs (1967, p. 262).

⁹³ See Meier and Hill (2005, p. 52). Selznick (1957) also emphasized the tendency of bureaucracies to persist.

key strengths of bureaucracies include “precision, speed, knowledge of the files, continuity, discretion, unity, strict subordination, reduction of friction and material and personal costs.”⁹⁴

The benefits that Weber highlighted were achieved, at least to a certain extent, by the objective way individual members were hired, remunerated, and evaluated in an ideal-type bureaucracy, as well as cost efficiencies from the division of labor, as described below.

Impersonality and uncertainty reduction

After the American Revolution, most elective and appointive offices were predominately staffed with landowning and commercial elites. President Jackson introduced a system of rotating civil servants frequently from one job to another in order to create more accountability. When a new presidential administration was elected it was common practice to replace officeholders at all levels with politically loyal supporters. President Lincoln, for example, replaced 1,457 out of the 1,639 presidentially appointed officials. This so-called spoils system prevailed until 1883, when the Pendleton Act created a merit system.⁹⁵ Although it initially was applied only to parts of the federal civil service, it created the foundation for an apolitical bureaucracy and subsequently was extended to cover all civil service employees.⁹⁶

With the development of this new system, bureaucrats were recruited for full-time, life-long positions that were their sole, or at least prime, source of income. They were recruited based on their merit, i.e. their formal qualification and knowledge, and not due to family ties or political loyalties. This was a stark contrast to the feudal and patrimonial systems that preceded bureaucracy and the favoritism that Weber still found prevalent at the time of his writings. They embarked on a “career” that provided them with sufficient means to cover their

⁹⁴ See Weber (1978, p. 973).

⁹⁵ The spoils system derives its name from the fact that bureaucratic offices were considered the winnings, or spoils, of the elected party. It is also sometimes referred to as patronage system.

⁹⁶ See Knott and Miller (1987, p. 16 ff) and Weiss (1980, p. 18). The Pendleton Act applied initially only to 10 percent of the approximately 107,000 federal civil servants that were employed in 1883. The fact that US President Garfield was assassinated by a disgruntled office seeker in 1881 provided further impetus for its enactment.

personal expenses and with ongoing training to develop skills necessary for the competent execution of their jobs.⁹⁷ Remuneration depended on the position itself, not on the personal characteristics of the officeholder or his productivity. Promotions were based on seniority and achievement. The relationship between superiors and subordinates was regulated in an impersonal fashion, with subordinates owing their allegiance not to a specific person but to the position itself.

This system minimized arbitrariness and decisions based on personal likes and dislikes. It contributed to democratic equality as it did not differentiate by wealth, race, and other personal factors. It reduced friction and uncertainty by making bureaucratic outcomes predictable and calculable. It also created continuity by reducing uncertainty over a wider time frame. Present decisions became more predictable because they did not depend on the idiosyncrasies of the bureaucrat in charge of a particular case. Past outcomes could easily be reconstructed and reassessed due to the existence of extensive written documents, all systematically stored in files and easily retrievable. Future outcomes could be predicted with great accuracy by anyone familiar with a particular regulation.

Deviations from norms and standards could be easily detected, reducing the risk of corruption. In addition, the longer time horizon made returns from corruption relatively less attractive, as a corrupt bureaucrat would forego his life-long income.⁹⁸

Cost reduction due to the division of labor

The reduction of the material and personal costs that Weber predicted stems in large part from the division of labor that is inherent in bureaucracies.

Tasks are broken down into clearly separated multiple jurisdictional areas and duties and responsibilities of each officeholder are clearly defined. Bureaucrats are functionally specialized and perform a narrow set of repetitive tasks in which they become a master so that they can carry them out with speed and precision. Material costs can be reduced because specialized employees only need to have a limited number of tools at their disposal to carry out their assigned tasks.

⁹⁷ The “Weberianness Scale” suggested by Evans and Rauch (1999) measures the extent to which agencies recruit based on merit and offer predictable, long-term careers.

⁹⁸ See Olsen (2005, p. 9).

Weber's ideal bureaucracy resembles Taylor's scientific approach to the factory floor. The one best way is codified into rules and any personal element, such as sympathy, affection or prejudice, is eliminated from work conduct. Rules embody the knowledge an organization has accumulated over time and allow bureaucrats to save cognitive energy by following a course of action that had been set up well before a certain decision must be made.⁹⁹

Where rules cannot be specified *ex ante*, hierarchy comes into play. A firm system of supervision and subordination clearly regulates who has the authority to decide exceptional cases.

Disadvantages of bureaucratic organizations

Many of the disadvantages of a bureaucracy are inherent in its advantages. In this section, the rigidities and inflexibilities that characterize bureaucracies and their apparent conflicts with democratic values are discussed. Secondly, a set of bureaucratic inefficiency hypotheses is presented.

Rigidity, inflexibility, costs, and lack of innovation

The maze of rules and regulations that characterize a bureaucracy can be an asset in a stable environment but they can be ill-suited when the environment changes rapidly and the "one best way" is no longer valid. Detailed rules and rigid rule-following may reduce errors at the expense of long-term adaptability to new circumstances. Increased documentation requirements also entail higher costs.¹⁰⁰

Schumpeter lamented the depressive influence that a bureaucracy exerts on creative minds and even Weber acknowledged the restrictions it imposed on the human spirit.¹⁰¹ Reflecting public distaste for bureaucracy, Webster's New International Dictionary even defined bureaucracy as "a system which has become narrow, rigid, and formal, depends on precedent, and lacks initiative and resourcefulness."¹⁰²

⁹⁹ See Heugens (2005, p. 556 f).

¹⁰⁰ See Novaes and Zingales (2004).

¹⁰¹ See Mitzman (1970, p. 232), Schumpeter (1996[1942], p. 207), and Weiss (1980, p. 7).

¹⁰² Webster's New International Dictionary (1949, p. 358).

Complaints about un-empathetic bureaucrats who treat citizens as “cases” and not as human beings abound and public agencies are often not considered to be responsive to citizen’s needs. In addition, bureaucratic properties are in conflict with some of the key tenets of democracy, impeding the integration of a bureaucratic government into a democratic political system.

Democracy requires	Bureaucracy requires
Plurality	Unity
Equality	Hierarchy
Liberty	Command
Rotation in office	Duration in office
Openness	Secrecy
Equal access to participation in politics	Differentiated access, based on authority
Election	Appointment

Table 6: Inherent tensions between democracy and bureaucracy (Nachmias & Rosenbloom, 1980, p.31)

Bureaucratic inefficiency hypotheses

A second set of critiques can be found in the bureaucratic inefficiency models, especially in a set of hypotheses created by the founder of this strain of literature, William Niskanen.¹⁰³ These include:

The overspending hypothesis: The budgets of public agencies will be larger than necessary to provide a given service. The reason for this is that salary, status, and discretion of bureaucrats are usually positively correlated with the size of the agency budget. The excess budget will be larger the more monopoly powers agencies have, i.e., the less it is possible to acquire the same services from an alternative source of supply.

The production inefficiency hypothesis: Public agencies will produce a given output less efficiently than a private firm. Agency efficiency will be a negative function of bureau size. This is due to the fact that a larger bureau is more costly

¹⁰³ Niskanen (1975, p. 617 ff).

to monitor, both for politicians and the agency heads. Agency efficiency will be positively correlated with competition for the supply of the services provided, as this increases the credibility of a threat to withhold funds in future periods.

The oversupply hypothesis: A public agency will supply more output than would be approved if monitoring was costless. Whether the excess budget is spent on oversupply or inefficiency depends on the personal motivation of the bureaucrats and his incentive structure.

The overcapitalization hypothesis: A public agency will apply more capital-intensive production technologies than a private firm producing the same output. Bureaucrats prefer present spending over future spending because their rewards are connected solely to their tenure in a certain position. Therefore, bureaucrats will select technologies with higher capital costs and lower operating costs, *ceteris paribus*.

The bureaucratic structure hypothesis: The way a bureaucracy is structured influences its performance. The consolidation of different agencies that are supplying competing services leads to an increase in the bargaining power of the remaining agencies and, ultimately, to a monopoly. This increases the costs of identifying underperforming agencies and decreases the incentives for the agency to be responsive, innovative, and efficient. In addition, having multiple agencies provide a certain service increases the range of approaches and technologies used and hedges against the risk of applying, for example, a technology that is about to become obsolete.

Barton pointed out that there are interdependencies between the structural and political disadvantages of a bureaucracy that reinforce each other.¹⁰⁴ The lack of comparable measures to assess agency performance leads to the enactment of rigid rules. The rigidity of rules then contributes to the weakness of rewards, which likewise reduce the motivation to excel, leading to an agency's inefficiency, lack of innovation, and unresponsiveness.

¹⁰⁴ See Barton (1980, p. 29 ff).

2.5.2 Idiosyncrasies of public agencies

Government agencies are a subspecies of organizations that differ from private firms in several important ways.¹⁰⁵ As Perry and Rainey pointed out “...inattention to differences between profit-oriented firms and public agencies can lead to overgeneralization in organization theory.”¹⁰⁶ Some of these differences were alluded to above, but below they are collected to provide a summary of the main distinctions between public and private organizations.

Lack of a single performance metric and comparability

In stark contrast to the profit maximization objective of private firms (or correlated metrics, such as stock price), public sector organizations do not possess a single, universally accepted, goal or measure of success.¹⁰⁷

The US Department of State’s goal, “Promoting the long-range security and well-being of the United States,” for example, does not lend itself to a singular, easily quantifiable metric. This leads to the problem of putting weights on individual, potentially conflicting, goals, such as efficiency, equity, or environmental concerns.¹⁰⁸

In the private sector, it is possible to separate idiosyncratic from aggregate risk and to compare the relative performance of individual firms within a certain industry.¹⁰⁹ As has been noted above, many government agencies, however, carry out activities as a monopolist. Frequently, there is even a bilateral monopoly situation, in which the government only buys services from the agency and the agency only sells its services to the government. Many agencies provide services for which there are only few close substitutes.¹¹⁰ The difficulty of assessing the performance of an agency and to distinguish low-performing from

¹⁰⁵ See Dixit (1997, p. 378 ff) and Tirole (1994, p. 3 ff).

¹⁰⁶ See Perry and Rainey (1988, p. 182).

¹⁰⁷ See Moe (1984, p. 766 f), Rainey and Chun (2005, p. 82), and Talbot (2005, p. 491 ff).

¹⁰⁸ See Tirole (1994, 3 ff).

¹⁰⁹ See Tirole (1994, p. 4). Another term for relative performance evaluation is “yardstick competition.” The existence of a comparable firm that faces a similar external environment can improve the strength of performance-related incentives.

¹¹⁰ See Dixit (1997, p. 378).

high-performing organizations is exacerbated by the fact that often agency output is exchanged for a budget instead for a per unit price.¹¹¹

Multiple principals and heterogeneity of owners' taste

Agencies usually report to several principals with different objectives, such as multiple ministries or congressional oversight committees. In addition, they are closely monitored by various interest groups and the media. This entails benefits, as it provides checks and balances against the arbitrary misuse of powers. However, responding to different, potentially conflicting, goals may reduce an agency's efficiency.¹¹² Some principals may care more about the input and the processes that an agency employs, for example the creation of jobs and income in a particular region, than about the outcome of a policy.¹¹³

Lack of sorting out underperformers

The difficulty of assessing an agency's performance contributes to its survival. In the private sector there is a natural selection mechanism that weeds out inefficient firms. Their offerings are outperformed in product markets and they fail to attract funds in capital markets. This is a fundamental difference from the supply side in the public sector, where inefficient agencies survive, provided they have political support. Political efficiency hence replaces economic efficiency considerations and costly influence activities may occur.¹¹⁴

¹¹¹ See Niskanen (1975, p. 618).

¹¹² Bovens called this the "problem of many eyes" (2005, p. 186).

¹¹³ See Dixit (2002, p. 711 f) and Tirole (1994, p. 3 f). See also the discussion of political costs in Sections 4.1.3 and 8.1.3.

¹¹⁴ See Moe (1984, p. 762). The strategic triangle, a widely used framework for strategic analysis within the public sector, lists support as one of its three dimensions, emphasizing the importance of getting buy-in from the "authorizing environment," i.e., the relevant sponsor or sponsor group (Moore, 2000, p. 197 ff).

Constraint focus and risk aversion

With goals being ambiguous, the performance of an agency is frequently assessed in terms of an easier to measure metric, constraints. They can be defined as limits on acceptable behavior to reach a certain goal.¹¹⁵ Constraints play a pivotal role in the public sector, sometimes leading to the substitution of means for ends, known as “goal displacement”, with the adherence to rules and regulation given precedence over the objective for which they were invented.

The emphasis on minimizing misgovernment instead of maximizing good government has a long tradition in public administration.¹¹⁶ White cited a government official in 1926: “Whenever we make a mistake, some one jumps on us for it, but whenever we do something well nobody pays any attention to us.”¹¹⁷

Input inflexibility

Public agencies are subject to restrictive civil service regulations that hinder their flexibility.¹¹⁸ The Administrative Procedure Act of 1946, designed to create fairness in administrative operation, stipulates detailed rules and regulations for federal employees, reducing their administrative discretion.¹¹⁹ Apart from more rigid personnel rules, government agencies are also bound by myriad procurement rules, designed to avoid self-dealing and unjust favoritism of certain suppliers.¹²⁰

Low-powered incentives

As noted by Dixit “government agencies and public enterprises are generally thought to perform poorly because their managers and workers lack the high-

¹¹⁵ See Kelman (2008, p. 227 ff).

¹¹⁶ See Gregory (2003, p. 564).

¹¹⁷ See White (1926, p. 243 f).

¹¹⁸ See Ferris and Graddy (1994, p. 128).

¹¹⁹ See Kamarck (2007, p. 25 ff). Kamarck notes that the federal personnel manual ran to 10,000 pages before it was cut by the Clinton administration.

¹²⁰ See the analysis of the relative flexible employment and procurement rules for private service providers in Section 8.1.1.

powered incentives that are believed to prevail in private firms.”¹²¹ The use of relatively low-powered incentives is prevalent because it is generally difficult to assess the individual contribution of employees and because measureable and non-measureable goals co-exist.¹²²

In comparison to the private sector the differential in earnings between the highest and lowest paid public sector employees is much lower and there is a weaker relationship between extrinsic rewards and performance, with employees only receiving a small fraction of their marginal product. They usually cannot increase their personal income, except via promotion to a higher paid position, which increases the importance of career concerns for public sector employees.¹²³

Acemoglu et al. note the advantages that the considerable wage compression within the public sector entails for avoiding unproductive signaling efforts to improve observed performance, collusion, and corruption.^{124,125}

Attempt to limit future influence activities

With governments being voted in and out of power at certain intervals, “political property rights” i.e. the ability to exercise public authority, changes relatively frequently in a democracy.¹²⁶ This creates incentives for politicians, who face uncertainty about how long they will be able to hold on to their political power, to insulate agencies from the future exercise of public authority by political opponents who might want to reverse their policies.¹²⁷ By enacting detailed formal

¹²¹ See Dixit (1997, p. 378).

¹²² See Tirole (1994, p. 6 ff).

¹²³ See Tirole (1994, p. 7).

¹²⁴ See Acemoglu et al. (2008, p. 16 ff). They point out that activities for which high-powered incentives are optimal should be operated as markets but that government operations may be desirable in cases where it is costly for customers to distinguish true quality from efforts to merely signal high quality and where firms cannot credibly commit to low powered incentives.

¹²⁵ Meier and Hill (2005, p. 56) note that US federal government programs that are implemented by private firms are marked by higher corruption than if assigned to public sector employees.

¹²⁶ See Moe (1990a, p. 227).

¹²⁷ See Moe (1990b, p. 138).

rules and requirements *ex ante* politicians limit bureaucratic autonomy *ex post*, albeit at the cost of a potential decrease in efficiency due to the agency's limited ability to react to future contingencies.¹²⁸

2.6 New public management

In this section, NPM is introduced as a reform movement intended to help public sector organizations apply their scarce resources more efficiently and effectively.¹²⁹ The origin and characteristics of the NPM concept are described and critically assessed. Thereby, a particular emphasis is placed on the diffusion of NPM in the United States as it pertains to the advent of public shared services.

2.6.1 Origins and characteristics

The term NPM is a widely used summary description for a movement that started in New Zealand, Australia, and the UK in the late 1970's.¹³⁰ In these countries, senior politicians initiated reforms, applying microeconomic tools to solve government problems that previously were in the domain of political science, i.e. public choice theory. The term NPM refers not to policy analysis but to a set of normative management tools, heavily borrowed from the private sector. Its applications make the public agencies less dissimilar from private firms than most of the proponents of the traditional public administration style have advocated for (see Figure 4). The word *management* is intended to be much more active than *administration*.¹³¹ Whereas an administrator follows instructions a manager is expected to take responsibility and achieve results.

¹²⁸ See Furubotn and Richter (2005, p. 483).

¹²⁹ See Talbot (2005, p. 500 ff).

¹³⁰ See Hood (1991). Hood is usually credited for coining the term NPM (see Lynn, 2005, p. 43 ff).

¹³¹ See Hood (2005, p. 8 ff) for an etymological analysis of the terms.

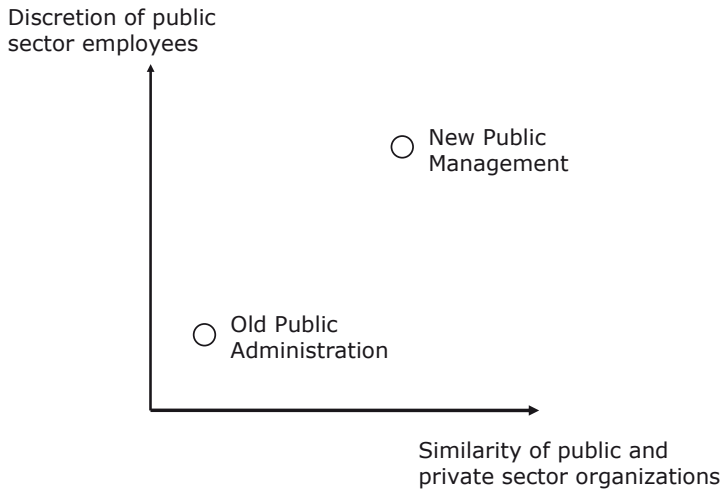


Figure 4: Overview of Old Public Administration and NPM

In an environment of fiscal crises, slow growth rates, and a perception that government agencies were widely inefficient and unresponsive, the reforms centered around the following points:¹³²

Empowerment

Reformers acknowledged that public managers are frequently stifled by rules and restrictions.¹³³ In Australia, hence, the creed became “let the managers manage”. Bureaucrats were given more flexibility and were empowered to adapt their organization to changing circumstances.¹³⁴ A bottom up “continuous improvement” philosophy that pushed decision-making authority deeper down in the hierarchy and replaced the traditional bureaucratic top down approach with its emphasis on constraints.

¹³² See Kettl (1997, p. 447 f) and Kettl (2000, p. 1 ff).

¹³³ See Meier and Hill (2005, p. 56 f).

¹³⁴ Hood (2005, p. 22) noted the “Tocquevillian paradox,” i.e., that reforms intended to “free” managers frequently and unintentionally lead to more, not less, control and regulations.

Customer orientation

At the heart of the reforms was an increased focus on providing better services to citizens. Calling them “customers” provided a powerful metaphor to serve their needs, instead of the needs of the bureaucracy or the political principals. Agencies started to assess customer satisfaction with the accessibility, timeliness, quality, responsiveness, friendliness, and cost of the services provided and to track the development of these indicators over time. Many agencies provided better access to their services, either by allowing “one-stop shopping” through the appointments of case managers or by establishing online access. In the UK, the Citizen’s Charter was enacted and a Charter Mark was awarded to public agencies that excelled in customer service. Agencies were selected based on ten service-related criteria and the winners gained the right to display the Charter Mark on their stationery and offices for three years. The revocation of the seal after this period usually generated much embarrassment, unwanted media coverage, and questions for an agency.¹³⁵

Incentives

In New Zealand and the United Kingdom, the government pursued a “make the managers manage” strategy. It was acknowledged that the managers of governmental departments actually had little monetary incentive to improve the performance of their organizations.¹³⁶ The traditionally constrained extrinsic incentive structure was adapted and monetary rewards introduced, especially at top organizational levels. In the UK, for example, so-called “next step” agencies were created in which civil servants were transferred. Agency heads received short-term contracts that included bonus payments and were replaced if they did not reach stipulated targets.¹³⁷

¹³⁵ See Kamarck (2007, p. 72).

¹³⁶ Public sector employees were generally assumed to be motivated by factors that are norm-based (e.g., the desire to serve the public at large), rational (e.g., the commitment to a specific public program), and affective (e.g., patriotism). See Perry and Wise (1990, p. 368 ff).

¹³⁷ The monetary consequences of achieving or missing goals for SSC management at the surveyed organizations will be analyzed in Section 5.3.2.

Performance management

Kelman called the reforms a “performance turn” in public management and observed that there had been a remarkable rise in the application of performance measures in public agencies.¹³⁸ In addition, the emphasis on the components of the performance measurement architecture changed. There was a shift from the traditional input orientation, especially on budget and employees, to outputs and outcomes.¹³⁹ Output measures gauge the actual work products produced by an agency; outcome measures the broader results achieved, weighed against social objectives. Whereas the New Zealand and British government largely focused on outputs, Australia relied on a combination of outputs and outcomes.¹⁴⁰

Contracting

As part of the shift toward new public management, government agencies were no longer necessarily considered the sole supplier of certain services. Osborne and Gaebler famously argued that government should “steer not row”, that is, setting policy and guidelines for service delivery but letting non-government actors perform them.¹⁴¹ Agencies increasingly had to bid against private competitors for government contracts and many public sector organizations were privatized, especially in the UK.¹⁴²

Table 7 illustrates the main differences between the classic public administration and NPM paradigms.

¹³⁸ See Kelman (2007, p. 34).

¹³⁹ See Section 5.2.1 for a classification of the SSC assessment base into input, output, and input/output.

¹⁴⁰ See Kettl (1997, p. 451).

¹⁴¹ See Osborne and Gaebler (1992).

¹⁴² See Chapters 7 and 8 for an analysis of the limitations and advantages and disadvantages of contracting out support services to private firms.

	Old Public Administration	New Public Management
Primary theoretical and epistemological foundations	Political theory, social and political commentary augmented by naïve social science	Economic theory, more sophisticated dialogue based on positivist social science
Prevailing rationality and associated models of human behavior	Synoptic rationality, "administrative man"	Technical and economic rationality, "homo economicus" or the self-interested decision maker
Conception of public interest	Public interest is politically defined and expressed in law	Public interest represents the aggregation of individual interest
Responsiveness	Clients and constituents	Customers
Role of government	Rowing (designing and implementing policies focusing on a single politically defined objective)	Steering (acting as a catalyst to unleash market forces)
Mechanisms for achieving policy objectives	Administering programs through existing government agencies	Creating mechanisms and incentive structures to achieve policy objectives through private and non-profit agencies
Approach to accountability	Hierarchical – Administrators are responsible to democratically elected political leaders	Market-driven – The accumulations of self-interests will result in outcomes desired by broad groups of citizens (or customers)
Administrative discretion	Limited discretion allowed for administrative officials	Wide latitude to meet entrepreneurial goals
Assumed organizational structure	Bureaucratic organizations marked by top-down authority within agencies and control or regulation of clients	Decentralized public organizations with primary control remaining within the agency
Assumed motivational basis of public servants and administrators	Pay and benefits, civil-service protections	Entrepreneurial spirit, ideological desire to reduce size of government

Table 7: Comparison of old public administration and NPM (Source: Denhardt and Denhardt, 2003, p.28 f)

2.6.2 New public management in the US

Unlike the Westminster nations, the US federal government had little to privatize, as there were far fewer state-owned companies in the US.¹⁴³ Westminster nation-style government reform was largely confined to the state and local level in the US until the early 1990s.¹⁴⁴ In the US, NPM was popularized under the term “Reinventing Government,” based on a bestselling book with the same title published by Osborne and Gaebler that advocated mission-driven instead of rules-driven government.¹⁴⁵

In March 1993, the newly elected Clinton administration announced the National Performance Review (NPR), which was carried out by hundreds of federal employees and academic and private sector advisors. In September 1993, US Vice President Gore issued their proposals in a report that was aptly titled *From red tape to results – Creating a government that works better and costs less*.¹⁴⁶ It included 384 recommendations whose implementation were supposed to save \$108 billion and that would reduce the federal work force by 252,000 employees. Congress subsequently increased this number to 272,900 employees.

Also in 1993, the Government Performance and Results Act (GPRA) was passed in Congress. It mandated all federal agencies to introduce strategic plans and to design outcome measures by March 2000, a process that was initiated with 21 pilot agencies in 1994. This was a significant difference to the nations that pioneered NPM: “GPRA catapulted the federal government past fifteen years of Westminster experimentation with output measures to a quick, aggressive move into outcome assessment.”¹⁴⁷

In 1994, Congress passed the Federal Acquisition Streamlining Act, which removed some of the rigid procurement rules that public sector organizations faced. The act allowed agencies to use credit cards for their purchases and simplified procurement processes for purchases under \$2,500.¹⁴⁸ Previously, most purchasing rules had not differentiated between small and large scale items to avoid any kind of corruption. The quest for zero corruption had long reduced the

¹⁴³ Kettl (2002, p. 32).

¹⁴⁴ Kamarck (2007, p. 8).

¹⁴⁵ See Osborne and Gaebler (1992).

¹⁴⁶ See Gore (1993).

¹⁴⁷ See Kettl (2000, p. 32).

¹⁴⁸ See Kamarck (2007, p. 26).

productivity of government agencies. Anechiarico and Jacobs described how the existing anti-corruption mechanisms at the New York City Police and the New York City Building Authority had stifled performance for decades.¹⁴⁹

In 1994, President Clinton issued an executive order in which he mandated that all federal agencies dealing with the public develop and publicize customer service standards. Publishing the standards was intended to make customers aware of what they could expect and to increase the pressure from the media and interest groups when there were service delivery problems. A series of awards were created that recognized agencies with outstanding customer service. To recognize exceptional customer service, Vice President Gore handed out “Hammer Awards,” the Internal Revenue Services developed a “Seal of Approval,” and the US Department of Education established an “honor roll.”¹⁵⁰

In 1998, the name of the NPR was changed from National Performance Review to National Partnership for Reinventing Government (with a silent G). A new slogan, “America@ Its Best,” was created to emphasize the importance of information technology in the quest for increased productivity and to highlight the intention to create an information age public sector that uses cutting edge technologies.

Unlike in the Westminster nations, US civil servants’ rights remained largely untouched by the reforms. The overall federal civilian workforce, however, was reduced by 15.4 percent, i.e., slightly over 300,000 employees between 1993 and 1998.¹⁵¹ The NPR estimated that actual total savings of the reforms were \$112 billion, with about half stemming from the workforce reductions.¹⁵²

The Bush administration expanded on the GPRA and created the Program Assessment Rating Tool (PART). It is applied to evaluate the objective, design, planning, management, and outcomes of public sector programs and to increase accountability, rating them as “effective,” “moderately effective,” “adequate,” “ineffective,” or “results not demonstrated.” By 2006, about 80 percent of the largest thousand federal programs had been rated.¹⁵³

¹⁴⁹ See Anechiarico and Jacobs (1996). Their book is aptly titled *The Pursuit of Absolute Integrity: How Corruption Control Makes Government Ineffective*.

¹⁵⁰ See Osborne and Plastrik (2000, p. 333).

¹⁵¹ This figure excludes the U.S. Postal Service.

¹⁵² See Kettl (2000, p. 21).

¹⁵³ See Gilmour (2006).

2.6.3 Critical assessment of new public management

The two most recent public sector handbooks, the *Handbook of Public Administration* and the *Oxford Handbook of Public Management* were largely critical of NPM.¹⁵⁴ Lynn called it “an ephemeral theme likely to fade” and predicted that “fundamental differences among reforms will begin to eclipse superficial similarities.”¹⁵⁵ The lack of a coherent theory that tied the many reform success stories and cases together turned it into a kind of “shopping basket” and made even the definition of NPM difficult.¹⁵⁶ Hood and Peters noted that “no two authors listed the same features.”¹⁵⁷ Some scholars suggested that NPM is still in a pre-theoretical stage.¹⁵⁸

Critics considered it inappropriate to apply methods that proved successful in the private sector for public purposes. Pollitt claimed that “the transfer ...of managerialism from private-sector corporations to welfare-state services represents the injection of an ideological ‘foreign body’ into a sector previously characterized by quite different traditions of thought.”¹⁵⁹ Using the word “customer” instead of “citizen” evoked a particular enmity.¹⁶⁰ This was considered as undermining the democratic roles of the citizens, as they were not mere service recipients but also constituents, who elect some of their peers to govern them and who, as taxpayers, ultimately pay the government’s bills.¹⁶¹ As customers they might demand unlimited service; however, as taxpayers, they demand minimal waste and efficiency.¹⁶²

In addition, a central feature of a private sector supplier-customer relationship was missing: choice. Agencies frequently cannot choose not to provide their services to certain citizens. Likewise, citizens normally cannot choose

¹⁵⁴ See Ferlie et al. (2005) and Peters and Pierre (2003).

¹⁵⁵ See Lynn (1998, p. 232).

¹⁵⁶ See Christensen and Laegreid (2001).

¹⁵⁷ See Hood and Peters (2004).

¹⁵⁸ See Bevir et al. (2003). Also, Christensen and Laegreid (1998, p. 470 f) wrote that “NPM is not an integrated and consistent theory, but rather a loose collection of diverse doctrines, principles and measures which are partly in opposition to one another.”

¹⁵⁹ See Pollitt (1990, p. 11).

¹⁶⁰ See Kelman (2008, p. 242) and Pollitt (1990, p. 45).

¹⁶¹ See Moore (1995, p. 36 ff).

¹⁶² See Kettl (2002, p. 70).

which police or fire department to patronize. In addition, government agencies do not only provide services but also administer obligations for the public good, e.g., collecting taxes and enforcing laws, which are often unwanted by the immediate recipients in the first place.

The idea that public managers should behave more in a more “entrepreneurial” fashion was treated with skepticism by advocates of a more constraints-embracing role for public administration. They were concerned that traditional bureaucratic values such as consistency, impartiality, and probity were endangered by the reforms.¹⁶³ Critics pointed out that NPM leads to an increased politicization of administrative affairs. Politicians could use the increased dependency of agency heads due to their at-will contracts to increase their influence.¹⁶⁴ Other authors argued the opposite, namely that NPM leads to too much depolitization. Because of NPM’s focus on improving the administration’s productivity, the importance of politics was downplayed.¹⁶⁵ Political influence and congressional oversight was largely considered a barrier to efficiency. Legitimacy was mainly derived from the fact that customer responsiveness and satisfaction were increased.

Whether the NPR’s initial goal of creating a government that “works better and costs less” were met, was heavily disputed. Kettl noted that “(r)eformers’ rhetoric has sometimes outstripped their ability to produce results.”¹⁶⁶

With regard to the “works better” argument, the shifts within the performance management architecture from input to outcome measures, actually impeded comparisons of past and present. The reliance on outcome measures was criticized, as many factors were beyond the control of an individual agency. The level of crime in a particular area, for instance, was influenced not only by what police do, but also by social factors, such as drug use and unemployment rates.

¹⁶³ Dunleavy and Hood organized the criticisms that the NPM faced, based on cultural theory, into a fatalist, individualist, hierarchist, and egalitarian critique to capture a broad range of negative attitudes towards the new concept (1994, p. 10).

¹⁶⁴ See Hood and Peters (2004, p. 270) and Maor (1999, p. 6). Maor posited a “paradox of managerialism”: the higher the level of discretion and authority assigned to the agency managers, the less secure politicians want them to be.

¹⁶⁵ See Lynn (2001, p. 233) and Rosenbloom (2001). Osborne and Gaebler, the authors of the *Reinventing Government* book that spearheaded the reforms in the US, wrote, “This book is about governance, not politics.” (1992, p. 267).

¹⁶⁶ See Kettl (1997, p. 449).

Holding agency heads accountable for outcomes over which they had only limited control was considered problematic.

In addition, the assessment of actual program performance proved to be very difficult. The PART tool that was run by the Office of Management and Budget (OMB) had a large subjective component. Agencies could improve their PART scores “by getting better at ‘communicating their accomplishments’ to their counterparts at OMB, not by improving their performance.”¹⁶⁷ The Federal Emergency Management Agency, for example, received relatively high PART ratings before they failed so miserably in the aftermath of Hurricane Katrina in New Orleans.¹⁶⁸

A second problem with PART was that it was often regarded as a compliance activity that involved staff rather than line managers and, hence, was not really practiced within an agency. Thirdly, the connection of PART scores to budget allocations was considered problematic. Programs may perform poorly precisely because they lack funding, whereas high-performance agencies may have adequate budgets. Penalizing low performers by withholding resources in the future may do nothing but exacerbate the problem.¹⁶⁹

The amount of cost reductions resulting from efforts to reinvent government was difficult to verify as well. The \$112 billion stated by the NPR were largely unaudited (and unauditable). In addition, a significant proportion of the federal jobs that were cut came from the civilian workforce at the Department of Defense. This reduction, however, was announced after the end of the cold war, and before the NPR was launched.¹⁷⁰ Other jobs were merely transferred as responsibilities were devolved from federal to state or local governments or outsourced to private contractors that continued to supply the agencies from which they have been carved out.

As the Obama Administration settles in amidst a serious recession, the role of the public sector may once again shift as failing companies come under significant, if temporary, government management. Yet pressure still exists to control public costs, as stimulus funding is tied to specific criteria and results. More and more public sector organizations are embracing a concept that allowed private

¹⁶⁷ See Kelman (2007, p. 43).

¹⁶⁸ See Kamarck (2007, p. 69 f).

¹⁶⁹ See Kelman (2007, p. 43).

¹⁷⁰ See Kettl (2000, p. 21).

sector companies to reduce costs and improve quality simultaneously: shared services.

Public Shared Service Centers

A Theoretical and Empirical Analysis of US Public Sector
Organizations

Schwarz, G.

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