Reviewing the National Performance Review

A Critique of Reinventing Government

© Jesse Alan Gordon, 1994

TABLE OF CONTENTS (click on the section title)

This article is a review and critique of the Clinton Administration's initiative for reinventing government. It uses four sources: 1) Al Gore's speech in Harvard's Kennedy School of Government Forum, on December 10, 1993; 2) a KSG lecture and question-and-answer session presented on January 27, 1994 by Stan Newman, the spokesperson for Al Gore's "National Performance Review"; 3) the Report of the National Performance Review, entitled "From Red Tape to Results: Creating a Government that Works Better & Costs Less," published in September 1993; and 4) the underlying philosophical work, written by David Osborne and Ted Gaebler, entitled "Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector," published in February 1993. This article will refer to them, respectively, as "Gore," "Newman," "NPR," and "ReGo."

Reinventing Government

The National Performance Review (NPR) is the federal government's implementation of the concepts of reinventing government. "Reinvention" is supposed to be not just a euphemism for reform, but a basic restructuring of the way we operate and think about government. Al Gore's version, as outlined in the NPR, is based on the general concepts established in the Osborne and Gaebler book entitled "Reinventing Government" (ReGo). Al Gore had to make many compromises of the basic ReGo concepts to make them applicable and acceptable to the federal government. This article will discuss the weaknesses which result from those compromises, and how Gore's NPR is not "reinvention," but only a small first step towards real reinvention. Gore's compromises, furthermore, are not entirely due to the necessities of bipartisan politics, but are also based on Gore's (un-reinvented) deep belief that government is the solution to every problem that America faces.

The basic concepts of reinvention are: 1) Government should steer rather than row -- that is, government should provide a framework for the operation of programs, rather than actually operating programs itself; 2) Government should focus on outcomes (desired results) and needs of customers (service recipients), rather than inputs (dollars and jobs) and needs of bureaucracies (rules); 3) Government should decentralize and "de-layer" -- that is, address problems from the lowest level of government feasible; 4) Public agencies should compete with private agencies, should incorporate profit-motivation and entrepreneurialism, and should adopt a market orientation wherever possible; and 5) Government which work betters also costs less -- that is, changing the system will result in a more efficient government which minimizes duplication and waste, and hence will reduce the budget deficit. The underlying rationale is that our current system of government was invented as an Industrial Age methodology, designed to achieve Progressive Era goals of fighting corruption; we now need a "reinvented" Information Age methodology, designed to fight over-spending.

Steering, Not Rowing

Government is good at setting up the rules of the game, but government is really bad at actually *playing* the game. Government therefore should define the framework under which non-government entities operate, and government should not try to actually *do* anything itself. Specifically, government service delivery is doomed to fail in a morass of red tape, inefficiency, rule-ridden bureaucracy, and wasteful spending. Government, therefore, should stay out of the service delivery business, and instead set up the framework of rules under which services are to be delivered, rather than try unsuccessfully to deliver the services itself. Gore said at the Forum that the Clinton approach is that "government cannot do everything," implying that government should catalyze society to solve its own problems, because government is not well-equipped to solve problems directly. Stan Newman, the NPR Spokesperson, said, "We not only have rowing now, we describe the type of oars, and we lay out the methods for the rowers to use."

A favorite ReGo example is of two post-WWII government programs to aid veterans: the GI Bill provided vouchers for veterans to attend the college of their choice, and was very successful at educating millions; versus the VA Hospital system, a government-run service operation which provides unsatisfactory health care to millions. The key distinction is that the GI Bill funded *individuals*, while VA Hospital system funds *institutions*. The GI Bill could have been set up as VA Colleges, which would provide poor-quality college education to veterans.

Gore and Newman would never use the word "privatization," although it's the implication of "steering, not rowing." The word "privatization" is as repugnant to Democrats as the word "legalization" is to Republicans (although the ReGo book does reluctantly use the term itself). Hence the NPR uses

phrases like "turn over management to the private sector," and Newman uses "get government out of the loop." Newman says that there is "a Constitutional requirement for federal executive oversight -- privatization is illegal as well as unwise." The Democrats' repugnance at the word "privatization" somewhat limits Gore's choices of policy alternatives, but with clever euphemization, he avoids too much limitation. I'll use the word "privatization" to mean private operation of services, with standards and oversight provided by the government -- I think that even the most ardent conservative would accept, for instance, that the government may demand that private schools teach their students certain minimum subjects.

Privatization is central to replacing rowing with steering: private institutions should deliver services, under the regulatory watch of government agencies enforcing government standards. The GI Bill *is* a "privatized" solution, because individuals make their own choices among private (or public) colleges. If we decide to privatize the VA Hospital system, the GI Insurance system would specify which hospital services were acceptable, just like any insurance company does. Privatization replaces government operations with private operations, but does not forego government oversight nor involvement, and hence isn't something to be nearly as scared of as Gore and Newman make it seem.

Related to privatization is abolishing useless government programs. The sad lesson of API-401 is that government rarely abandons anything. The NPR documents a retinue of ridiculous cases, such as an FAA weather observation post at an unused air base, where the person posted would confirm that the automatic weather recording device had reported correctly for many years. The NPR makes 384 specific recommendations on how to reinvent government -- only 13 of them actually abolish outdated programs [see box 1]. My criteria for considering a program "abolished" is that an entire program was killed, not just reorganized or consolidated with other programs. Thirteen programs killed would be a real accomplishment, but the NPR recommends creating 22 new programs [see box 2], so there's a net gain of nine programs.

Gore's view about replacing steering with rowing, evidently, is that we need a lot more steering wheels to replace a few soon-to-be-lost oars. I think that some of the new programs are good ideas -- especially the trio of user fees -- but the net gain indicates, as with privatization, that Gore has compromised a lot and is hedging his bet on reinvention. If Gore wants to seriously reinvent government, he must learn to say "privatize," and then recommend doing so when it is appropriate. He must also learn to wield a ruthless axe on existing useless programs -- he must apply his derisiveness about mohair subsidies to many other (equally outdated) programs as well.

Customer-Based Outcomes

Current government practice is to measure results by *inputs* -- a job-placement agency is monitored by counting how many people are signed up for re-training programs, for example. The problem, according to ReGo, is that managers will focus their efforts on making sure that their measurements come out looking good, so the job-placement agency will just get a lot of people to sign up. In the private sector, managers are measured by the criterion of profitability, and hence they focus on maximizing profit, and the Invisible Hand makes the world go 'round. The trick for reinventing the public sector is to measure things which you want to maximize: for the job-placement agency, measure the *output* of the number of people placed in jobs, or measure the *outcome* of the number of people who keep their jobs for a year. The mission of reinvented agencies should focus on clearly defining the desired outcomes, and their budget should be based on pre-defined amounts per output produced.

The idea is to define public agencies in terms that customers care about -- unemployed job-seekers don't care about signing up for re-training; they care

about getting a job and keeping it. Recipients of VA Hospital services don't care about whether their hospital fulfills its federal obligations; they care about receiving good medical services, so that's what should be measured. At profit-motivated private agencies, profit is increased by customer satisfaction -- hence Macy's makes sure that their customers stay satisfied. The VA Hospital has no such motivation, and hence their customers are dissatisfied. Most government agencies have monopoly power over their customers, so there's no incentive to serve customers well. Government agencies just follow the rules, since following rules is how bureaucrats are deemed successful, regardless of how the rules affect their customers.

Al Gore suffers from a view of customer service which is warped by working too long in government, away from real-live private service. His archetype of "good service" is based on a story of an IRS office in Utah detailed in the NPR: A taxpayer hitchhiked from out of state to the IRS center to collect his tax refund check, because he was broke, and his check had been mis-mailed to an old address. This center wasn't the place that printed checks, so he had to wait there for three days until the check-printing office could send the check there. This story is supposed to show how government offices actually can offer customer-friendly service, because the IRS employees in Utah didn't send him away, and helped him survive for three days.

I've been running a business while Al Gore has been running for office, so I'll describe what *I* would have done in that situation: Both the customer and me agreed that we owed him money, and that we had owed it to him for some time. Therefore, I'd bend the rules and would give him the money -- *his* money -- on the spot, in cash if he needed it, running to the bank if I needed to do so, and I'd take care of my paperwork after he had left. Imagine if you went to New York to pick up money from Macy's, because Macy's had mailed your check to the wrong place -- would Macy's tell you to go home and wait ("bad service")? or just make you wait three days ("good service")? No, of course not -- you would expect a manager there to make good on their debt and to stretch the rules to help you out, and I suspect that some Macy's manager would do so, if Macy's wants to stay in business. The IRS "service" is only "good service" in comparison to the even poorer service which the IRS usually provides.

Gore said in the Forum, "The system is so messed up that it can't recognize how to get well." I'm afraid that Al Gore doesn't recognize how government service *should* work either. The NPR promises only a timid first step towards *real* customer service.

Decentralization and Delayering

ReGo says, "unless there is an important reason to do otherwise, responsibility for addressing problems should lie with the lowest level of government possible." Newman rephrases that as, "Get the decision to where the rubber meets the road." An underlying problem with government is that, if decisions are filtered through many layers of bureaucracy, the decisions more poorly solve the problems which they address. Removing layers of bureaucracy between decision-makers and those who suffer the consequences of the decisions is called "delayering." Delayering implies removing the intermediate layers of bureaucrats, and is the source of Gore's promise to cut 252,000 federal employees (which was (jokingly) booed and hissed in the Forum during the State of the Union address, since those are jobs for KSG grads).

Gore's Forum speech focused on "community empowerment," which means getting decisions about one's community back to the community level. Empowering bureaucrats disempowers communities, so bureaucrats should be cut out of the loop. Decentralized decision-making is a result of delayering -- there should be more local decision-makers and fewer federal decision-makers, because the locals know better how to meet local needs.

The old concept of "one-size-fits-all" programs would be replaced by programs "tailor-made" at the community level. Gore describes how a "Virtual Department of Cleveland" would provide one-stop funding for all of Cleveland's needs, and then Cleveland would take the funds home and use them as they see fit.

I wonder why there need be a Department of Cleveland at all -- why not just leave Cleveland to its own devices, fully decentralized and with every federal layer removed entirely? That is, stop the normal federal process of taking away money from Cleveland (by taxing its citizens) and then giving it back to Cleveland (in federal programs), while keeping a cut in between (to pay for bureaucratic oversight). That would de-layer the federal bureaucracy entirely out of the loop, and would decentralize Cleveland so much that they wouldn't have to check in with the feds at all.

Now apply that to the ReGo "lowest-level" statement: the lowest level of government over citizens' actions is ... the citizens themselves. The ultimate decentralization is to allow me to decide for myself what I need. That concept doesn't make it into Gore's reinvention -- decentralization stops at the federal level, not the city level nor the individual level.

Gore's view is, "How do we best use the federal government to solve local problems?" The question should be, "How do we best solve local problems?" That is, the answer must be allowed to include options which exclude the federal government. Keeping the federal government in the loop keeps a lot of layers and a lot of centralization. The purpose of doing so is redistributionist: "The government's purpose is the national reallocation of resources," says Newman. Redistribution from one group to another is okay, and indeed requires a central government, but the government need not be involved in redistribution from one group to itself. A reinvented government should tell us how much of our money is needed for redistributive purposes, and then leave us the rest to ourselves. For Cleveland, the amount of money that Cleveland needs should be decided in Cleveland and then taxed in Cleveland -- if they're too rich, the feds tax them some more, and if they're too poor, the feds give them some extra. For Cleveland, "the rubber meets the road" in Cleveland, not in Washington nor even Columbus, Ohio.

Decentralization often means that states or cities take over roles previously held by the federal government. Many programs operate at mixed levels, such as welfare, which is run by the states, but has policy set by the feds. Newman justifies light treatment of things like welfare reform and education reform in the NPR (they're discussed in detail in ReGo), because "states need to reinvent themselves separately." From the customers' perspectives, however, the source of government service is irrelevant -- service is service whether it's from the feds, the state, or the city. Avoiding responsibility by saying "that's not our department" is one of the reasons citizens mistrust government. While we cannot expect the federal government to simultaneously reinvent the state governments, the feds *can* change policy direction unilaterally -- that's what "steering" is all about.

Competition and Entrepreneurialism

The basic change which reinvention addresses is that public managers should act more like private managers. That means that they should be subject to competition, and should act like entrepreneurs. Government lags behind business in productivity, service, and self-improvement, because government lacks the incentives that business has. Creating proper incentives for bureaucrats will make them good managers.

I like the attitude of making government compete with private business, but, as above, Gore never questions whether government should be one of the

competitors at all. An example of "government enterprise" is allowing private trash haulers to bid against the city trash collection service. Faced with competition, the city agency either improves their service level or ends up losing all of their contracts to private haulers. I question why there need be a public agency at all in that situation -- why not eliminate the public agency and just allow the private haulers to bid against each other?

For example, the NPR says that the US Postal Service has begun improving its service because it faces competition from private services. But the NPR does not suggest that we do anything to break the Postal Service's monopoly on mail delivery, for instance by allowing FedEx and other services to deliver letters. "The Postal Service has decided to meet its competition head on," says the NPR. In reality, however, the Postal Service actively maintains its monopoly on first-class delivery -- in December, they sued FedEx customers for using FedEx for "non-urgent" delivery (it's illegal to send regular first-class mail by FedEx -- one may only send "urgent" items, even if one is willing to pay FedEx's $15 fee to mail a letter).

In general, competition forces government to become more like equivalent private services. Government bureaucrats, acting in a competitive environment, will behave like private-sector entrepreneurs. But the question should be, Why is it necessary that the government provide this service directly? If the best that government can do is to do as well as private businesses, why require that taxpayers pay for service that can only approach private quality? Sometimes there's a compelling reason to maintain services within government, like with defense -- but is there a compelling reason that government must collect trash, or deliver letters, or the myriad of other services which government now provides? I'll suspend disbelief for a moment and accept that bureaucrats could act as efficiently as private-sector entrepreneurs (I discuss the inherent problems with that below). The question then becomes, Do we want public agencies to deliver services in competition with private agencies? The government can "steer" the actions of private agencies without "rowing" one of the rowboats themselves.

Works Better *And* Costs Less!

The subtitle of the NPR is "Creating a Government that Works Better and Costs Less." Reinvented government would reduce the budget deficit, implies the NPR, even though that is not one of their explicit purposes. Newman explains that the NPR has two factions: the "auditors," who focus on fraud, waste, abuse, and mismanagement -- to Cost Less; then there are the "reinventors," who want to fundamentally change the culture of the system -- to Work Better. The people who make up the NPR represent both factions, and supposedly the NPR will achieve both goals.

I think that any reinvention will certainly cut the budget deficit. The NPR attaches cost savings to many of its 384 proposals, and they seem accurate to me. Furthermore, I think that using deficit reduction as the framework for reinvention might get the public to accept the NPR because of its concrete benefits. Newman reports on polls of the American public: every poll reports "tremendous dissatisfaction" with government. Every poll puts reform of the federal bureaucracy first, above health care, above Bosnia, and above deficit cutting, even among Perotistas. There's a "performance deficit and a trust deficit," says Newman. I think that the trust deficit is why reinvention should first address the budget deficit -- it would give credibility to the NPR (it's treated by many in Washington as just another useless "movement"), would show some tangible success, and would directly address both of the other "deficits." I'd classify myself as a "reinventor," but the NPR must focus on cutting costs in order to survive politically.

How is this "reinvention" any different than previous reform movements? "This is a revolution, not just reform," says Newman. The Grace Commission and 500 other studies of the federal government since 1900 were done by outside groups. The NPR was done by federal employees (200

of 'em, working for six months), reporting how to change themselves, without the anti-government bias inherent in outside groups. The concept is to create a "paradigm shift" in how federal bureaucrats think about their jobs, and how the rest of us think about how government should work. The last such "paradigm shift" was when bureaucracy itself was invented, in the Progressive Era reforms of Teddy Roosevelt, Woodrow Wilson, and Louis Brandeis, and later fully implemented by Franklin Roosevelt. The Progressives reinvented government in response to the "machine politics," patronage, and corruption of the government of their day. Rule-based bureaucracy, centralized control, and regulation of the processes of government were the Industrial Age solution. The NPR would replace that system with a new Information Age-based paradigm.

I like the new paradigm. I'd like to see it implemented, and I think the way to do so is to show how it differs radically from the current paradigm. Gore, on the other hand, is pushing only for incremental change within the existing system, and is unwilling to go all the way. Perhaps he views himself as a Teddy Roosevelt, who is setting the stage for an FDR to complete the reinvention two decades hence. I would prefer to describe the structure of a fully reinvented system up front, in its extreme case, and let the political process create the compromises, rather than compromising beforehand. In order for political compromises to find an acceptable middle ground, there have to be two extremes -- Gore has chosen to stake out the middle ground as his starting point. I fear that the resulting compromise will be so close to the current system that it will not create a paradigm shift at all, and will become just another failed reform attempt.

Inherent Weakness of Government

Reinventing government implies that the Progressive Era reforms can be discarded as anachronistic in the Information Age. I'd like to explore whether that's true, or whether government has inherent weaknesses that were addressed by the Progressives and are still needed today.

Bureaucratic rules ensure that waste and fraud are limited, but also ensure that honest managers can't get much done. My first "inherent weakness" of government is the tradeoff between oversight and corruption. Businesses have a built-in oversight of bankruptcy -- if a business becomes too corrupt, it goes broke. Since government can't go broke (in the same sense that businesses can), more corruption just means more taxes. It's inadequate to say "Reinvented bureaucrats will be honest," because that implies a change in human nature. The NPR would remove duplication and strict rules, hence freeing bureaucrats to act on their own -- a reinvented government still needs some means of avoiding corruption. More "ombudsmen" or oversight committees should be included in the long-term plans of the NPR.

The most general case of oversight is by Congress. What the reinventors view as "micromanagement," Congress views as its legitimate electoral mandate to protect taxpayers' money. The solution to this dilemma is to make reinvented costs lower than the current costs -- an agency gets bureaucratic freedom at a price of a reduced budget to perform the same services. Congress gets to define the level of service, and the taxpayers' money is protected by disallowing budget increases. The agency does whatever it can to save money, and gets to keep its savings beyond the Congressionally-determined budget level.

Next is "institutional capacity." Making bureaucrats more entrepreneurial is entirely opposed to the culture of bureaucracy. Bureaucracy implies following rules, and entrepreneurialism implies bending rules (as in the IRS example above). People who have spent their careers as bureaucrats have chosen to live their lives by playing within the rules -- we'd be asking them to change their entire working philosophy. I think the only solution here is

to send bureaucrats out into the real world of the entrepreneurial private sector -- that is, to require that public employees have a year's experience as private employees before they may work at "reinvented" agencies. Public managers should be required to have operated a private business for a year before they are given control over a public enterprise.

What about the program-killing versus program-creating count (see boxes)? "The money spigot in Washington is much easier to turn on than to turn off," says the NPR. The best that Al Gore could do was turn off 13 spigots while turning on 22 new ones. This problem is rooted in pork-barrel budgeting: Congress has a strong incentive to create new programs (they make interested parties happy) and little incentive to remove obsolete programs (they cost individuals very little). The usual suggestion is to institute a Presidential line-item veto for spending bills. That's a good solution, but I think that in today's political climate, exposing obsolescence is often enough to create public pressure for their removal. Perhaps the Vice Presidency could take on the role of seeking out obsolete programs, exposing them to public scrutiny, and pushing through Congress the turning off of their money spigots.

One last inherent problem with government: the NPR calls for an expanded use of "electronic government," which means more computers, more telecommunications, and more automation. That sounds great, but efficiency in government operations also means efficiency in breaching citizens' privacy. "Electronic government" itself sounds ominously like a term from Orwell's "1984," like an omnipresent telescreen that one cannot turn off. Gore acknowledges the tradeoff between efficiency and privacy, and proposes a "Privacy Protection Board" to deal with the problem. I'd prefer a somewhat less efficient government, including the extra cost of inefficiency, if it meant a somewhat less intrusive government.

Gore and Newman both cited manager-to-worker ratios in government versus business as evidence of the need for reinvention. A typical business ratio is 1:25 (one supervisor for 25 employees), and an efficient business achieves a 1:75 ratio. The federal government has a 1:7 ratio, and with reinvention, Gore hopes to achieve a 1:15 ratio. Supervisors, remember, do not produce anything of interest to the customer -- hence from a customer's perspective, all supervisory work is waste. Gore's low ratio indicates that government is inherently more wasteful than business, which occurs because of the other inherent weaknesses of government listed above. If the problems with government are really inherent, and I believe they are, the solution should be to move as many functions as possible out of the government's hands.

Reinvented government would let public agencies *compete* with private entities, instead of letting them become private entities. The NPR solution to poor service delivery by the government is to bring in more elements of competition, so that the government can *approach* private market-determined levels of quality and performance. If more private-sector service delivery were allowed, with government oversight and standard-setting, the resulting services would *reach* the private levels rather than just approach them. Thus, the best that Gore's reinvented government can do is come somewhat closer to private standards than the currently lousy government standards. "Reinventing Government" has pointed out where government bureaucracies have created problems for America. We need to start asking, "Is government the solution?"

Box 1: NPR Program Cancellations

```
Eliminate support payments for wool and mohair
Eliminate price supports for honey
```

```
Phase out 10,000 page Federal Personnel Manual
Close some USAID overseas missions
Sell the Alaska Power Administration
Close some field offices for USDA, HUD, and DOE
Terminate FAA higher-education grants
Close the Uniformed Services U. of Health Science
Phase out VA supply depots
Eliminate time cards in the Executive Branch
Eliminate tax credits for wines and flavors
Rescind funding for Highway Demonstrations
Contract out low-use air traffic control towers
```

Box 2: NPR Program Creations

```
New Coordinating Council for Econ. Development
Establish USAID Innovation Capital Fund
Establish a Manufacturing Technology Databank
Create a DOD Capital Investment Fund
Establish EOP Customer Service Bureau
Set user fees for FDA inspection
Create a Rent Subsidy Demonstration Project
Establish a New Housing Production Program
Establish a Hard Rock Mine Reclamation Fund
Create one-stop DOL Career Management Centers
Create a Work Force Development Council
Set up a Research Productivity demo project
Set user fees for SBA Development Centers
Establish an Aeronautical Telecomm Network
Commission to Review US Maritime Industry
Set user fees for federal firearms licenses
Establish VA Working Capital Fund
Establish a law enforcement data network
Develop an International Trade Data System
Create a national environmental data index
Establish a Privacy Protection Board
Commission "program design" courses
```

Jesse Gordon, 1770 Mass Ave., #630
Cambridge, MA 02140
Voice mail: (617) 354-2805
E-mail: jesse@webmerchants.com

Article Index	About Instant Web Page	About WebMerchants	Next Article