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Missing Pieces in Each Other's Puzzles: Integrating the New Public Management and the New Political Economy

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ABSTRACT: Although New Political Economy ideas have sometimes accompanied New Public Management ideas in programs of bureaucratic reform (especially outside the United States), the two schools of thought have remained separate. I argue that the problems of bureaucracy are largely political problems. Therefore, bureaucratic reform must be viewed in tandem with political reform. New Public Management can learn from New Political Economy's emphasis on the incentives of self-interested politicians, and New Political Economy can learn from New Public Management's normative approach and focus on citizens. I use an "exit and voice" framework to discuss and evaluate alternative approaches to reform.

In this paper, I explore the implications of ideas from the New Political Economy for the New Public Management, and vice versa. By New Political Economy, I refer to recent ideas from economics that are currently having a significant influence in political science: ideas from the new institutional economics, such as agency theory, as well as ideas of the public choice theorists. By New Public Management, I refer to a set of bureaucratic-reform ideas sometimes referred to as

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"managerialist," and drawn largely from the private sector which, in the United States, have now been popularized as "reinventing government."

Outside the United States, bureaucratic reformers have paid considerable attention to ideas from the new political economy. Both agency theory and public choice had a considerable direct intellectual influence, most notably in New Zealand (Boston, 1991; Mascarenhas, 1993). These ideas coexisted with managerialist ideas, though perhaps without any explicit linkage to them.

The situation in the United States is different. The bureaucratic reform movement that we see today originated largely in local governments without any high-powered intellectual underpinning. While managerialist ideas have been popular, they have been so among practitioners who have little interest in abstract models.

Nonetheless, if one is proposing to reform bureaucracy, one must have some theory of what is wrong with it. In the American literature of the New Public Management (NPM), there is such a theory which, in essence, ascribes the problems of bureaucracy to cognitive limitations—as opposed to an agency-theory view, which would more likely attribute problems to faulty incentives. In the NPM view, problems with bureaucracy arise because we have the wrong paradigm. This view is most lucidly stated by Barzelay (1992:5) who describes the "bureaucratic paradigm" as a set of "deeply ingrained habits of thought." This paradigm was put forward by reformers in response to the administrative chaos of 19th century America, but now is under attack. An alternative paradigm arising to challenge it is that of the customer-driven and service-oriented organization; Barzelay notes:

> ...reasoning about customers and service helps managers develop alternative solutions to the particular problems they have defined as meriting attention. In many instances, the range of alternatives generated in this fashion is substantially different from that yielded by reasoning within the bureaucratic paradigm (1992:6-7).

A similar, though less well-developed, explanation appears in the most influential NPM book in America, Osborne and Gaebler's *Reinventing Government* (1992:331): "...the lack of a vision—a new paradigm—holds us back." Osborne and Gaebler do show some concern for managerial incentives; see, for example, their discussion of the perverse incentives of conventional budgets. But in general, they view the basic problem as the use of an obsolete model of the world. Osborne and Gaebler offer an explanation of why the old paradigm is obsolete:

> But the bureaucratic model developed in conditions very different from those we experience today. It developed in a slower-paced society, when change proceeded at a leisurely gait. It developed in an age of hierarchy, when only those at the top of the pyramid had enough information to make informed decisions....Today all that has been swept away. We live in an era of breathtaking change. We live in a global marketplace, which puts enormous competitive pressure on our economic institutions. We live in an information society, in which people get access to information almost as fast as their leaders do....In this environment, institutions developed during the industrial era—public *and* private—increasingly fail us (Osborne and Gaebler 1992:15).

Like Barzelay, then, Osborne and Gaebler give the devil his due: the bureaucratic paradigm was once appropriate, but is no longer so in our modern society. This is (as I'm sure these authors would have no wish to deny) in important respects an optimistic view. It is by no means a trivial task to change a worldview, but where that worldview is clearly outdated, change is surely only a matter of time.

My own view, though by no means pessimistic in the long term, is somewhat darker than this. I think that while reshaping habits of thought will often be worthwhile and productive, bureaucratic reform will often be more difficult than the wrong-paradigm view would suggest, because I subscribe to a somewhat different view of where the bureaucratic problem comes from. The view that I subscribe to is, in brief, that the degree of bureaucracy present in a given organization is a product of the incentives of the politicians who created and maintain the organization. As Terry Moe puts it, public bureaucracy "exists and takes peculiar structural forms because it conduces to the well-being of critically located politicians"(Moe, 1984:761). Changing bureaucracy, then, may to some degree be a matter of changing our habits of thought, but it is also a matter of either overcoming or changing the interests of powerful actors—and that is a much more difficult problem.

Consider two of the most serious issues in making bureaucracy more responsive: civil service and budgeting. Both have been extensively criticized for their red tape and the perverse incentives they impose on managers. Some recent research of mine looked at civil service in U.S. local governments. Managers at all levels of government who must deal with American-style civil service view it as a major impediment to doing their job. But not all managers must; many U.S. local governments do not have what one would normally think of civil-service systems.[1] Rather, their personnel systems resemble those of private-sector organizations. United States localities also show considerably more variety in governance than is typically the case outside the United States. Some cities are governed by a popularly elected chief executive mayor and an independent legislative council, very much on the line of the U.S. national government. Others, products of a municipal reform movement that started toward the end of the last century, are governed by a council that appoints a professional city manager as chief executive, and thus more nearly (though not precisely) resemble a parliamentary system.

I theorized (Frant, 1993) that the governance structure of cities would have a significant effect on their propensity to have civil-service personnel systems, and found that, controlling for other characteristics, cities where the chief executive is an appointed city manager are significantly *less* likely to use civil-service systems than are cities where the chief executive is an elected mayor. This is surprising, as the manager system and civil service were historically linked as "good government" institutions favored by urban reformers.[2] Also, manager cities where the council is elected by ward (district) are less likely to have civil service than those where the council is elected at large. Taking these facts together, my interpretation is that differences in personnel systems are a consequence of the different *political* incentives created by different institutions. In elected-mayor cities, the main political rivalry is between the mayor and the main source of future candidates, the council. Councilors find it in their interest to curb the mayor's political power by denying him or her the right to hire and fire at will. (Similarly, in at-large council-manager systems, the councilors' potential rivals are each other.) Political self-interest drives councilors in these situations to favor civil service.

Using a quite different methodology, historical case studies, intriguingly similar results are obtained by Rubin (1992). She finds that "most-reformed" cities (those with a city manager and at-large elections) adopted budget reforms more quickly and completely than less-reformed cities. Significantly, she finds that an obstacle to adoption of performance measures in elected-mayor cities lay in the nature of mayor-council relations: mayors feared that performance information made them politically vulnerable. Once again, we find that bureaucracy depends at least as much on politics as on paradigms.

Contrast these views with those of Osborne and Gaebler who are quite eloquent on the damage wrought by civil service systems. But here is their view of what sustains these systems:

> A typical Progressive reform, civil service was a well-intended effort to control specific abuses: patronage hiring and political manipulation of public employees. In most places it accomplished its goals. But like a howitzer brought out to shoot ants, it left us with other problems. Designed for a government of clerks, it became a straitjacket in an era of knowledge workers....[M]ost of what civil service procedures were established to prevent has since been ruled illegal or made impossible by collective bargaining agreements. Yet the control mentality lives on....Like the steam engine, civil service was a valuable breakthrough in its day. But that day has long since passed.(Osborne and Gaebler, 1992:124-5,130)

This is simply a reiteration of the obsolete-paradigm view. What lives on is not a structure, but a "mentality." And similarly for public-sector budgeting systems: "They are onerous and omnipresent, useless and demeaning. They suck enormous quantities of time away from real work.... But once again, our attempt to prevent bad management made good management impossible" (Osborne and Gaebler, 1992:117). As in their discussion of civil service, Osborne and Gaebler view bureaucratic constraints as a *mistake*, rather than as a result intended by particular actors.

In a fundamental sense, I would argue, the problem with bureaucracy is politicians, and the main obstacle to reforming bureaucracy is also, therefore, politicians. Politicians will tend to impose constraints on managers when that is in their interest, whether or not it is in the interest of those they are representing. This is so not because of any character defects that are intrinsic to politicians, but because of the incentives that particular institutions give to them.

This point has immediate relevance to international comparisons of the implementation of NPM. Moe and Caldwell (1994) argue that bureaucracies under parliamentary systems have more discretion, are more effective, and are under better democratic control than those under the U.S. separation-of-powers system. I will not attempt to evaluate this claim, but it is certainly striking that in the United States, the most dramatic steps in the direction of deregulating government and giving discretion to managers have come in unitary systems, i.e., council-manager cities. There has been some progress at the Federal level, and even more in some states (for example, Florida and Minnesota), which, like all U.S. states, have separation of powers. But the birthplace and home of reinvention in the United States has been in manager cities. Different political structures seemingly do make a difference.

Some political scientists have pointed out the need for consideration of political factors when contemplating bureaucratic reform (e.g., Wilson, 1994; Rosenbloom, 1993). One might think that those developing the new political economy of organizations, with their focus on politics and incentives in public organizations, would have a lot to say about the prospects for bureaucratic reform in the United States. In general, however, this has not been the case. The leading exponents of the new political economy have not taken an active part in the NPM discussion. I believe that the tools of new political economy can usefully be brought to bear on issues of U.S. bureaucratic reform. But before we can do so, they need to be refocused.

The principal-agent views of bureaucracy have had one large missing piece: The problem of citizen control of elected officials, of agency problems at the voter-politician nexus, has been virtually ignored. Writers typically make a brief bow in this direction: theoretical discussions of public-sector principal-agent problems nearly always begin by noting that there is a chain of principal-agent relationships stretching back to the voter. But as a practical matter, the first link in this chain has not drawn the attention of academics in the forefront of the new political economy. Why is this?

Part of the explanation must lie in modern political scientists' avoidance of normative stances, in favor of a purely positive approach. Taking a positive approach does not mean that one *must* ignore the citizen-politician nexus, but one certainly *may*. It is hard to say much normatively about public institutions without referring to voters, but one can make a great many positive statements, many of considerable scientific interest, confining oneself to Washington insiders. Moreover, modern political scientists studying bureaucracy have focused heavily on regulatory agencies, where interest groups are extremely powerful and unorganized citizens play little role. This has reinforced the tendency to overlook the citizen-politician nexus as a source of agency problems.

The New Political Economy literature thus fits badly in its main preoccupations with the New Public Management literature. The latter has been unashamedly normative. Its purpose is to tell managers how to make public organizations work better. The NPM literature also ignores the citizen-politician nexus, but its blind spot has a different origin. It ignores the citizen-politician nexus not because it ignores citizens but because it ignores politicians—as is perhaps natural in a theory drawn from the private sector.

As a result, the essential problem in bureaucratic reform is seldom viewed whole. The problem of bureaucratic reform is (and always has been) the problem of *citizen* control of bureaucracy. When we discuss alternative bureaucratic reforms, then, we should evaluate them in terms of the ultimate principals, citizens. The question is, how effective are various reforms at improving the linkage between what citizens want and what bureaucrats produce? I will consider here two possible general strategies for improving the linkage, i.e., for bureaucratic reform. The first is to bypass politicians, and reduce slippage by linking employees directly to citizens. The second is to change politicians' incentives.

For either strategy, we need to specify a control mechanism that citizens can use to make sure their wishes get implemented. I will consider two possible mechanisms, giving a two-by-two matrix of alternatives. A useful framework for thinking about control mechanisms employs the distinction made by Hirschman (1970) between "exit" and "voice." Exit is the familiar "voting with one's feet" that is thought of in economics as the normal response to a decline in quality. Consumers or workers or members simply leave and find an alternative. Hirschman is less specific about voice, defining it as a residual: "any attempt at all to change, rather than escape from, an objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention of forcing a change in management, or through various types of actions and protests, including those that are meant to mobilize public opinion." (Hirschman, 1970:30). So defined, voice presumably includes voting incumbents out of office ("voting with one's boot," we might say), but Hirschman places much more emphasis on lobbying and political activism, referring specifically to the ability of consumers to "kick up a fuss"(Hirschman 1970:30). Either of our alternative strategies, then, may be used in conjunction with either exit or voice to constitute a possible approach to bureaucratic reform.

For each of the four alternatives, I will consider examples and discuss its pros and cons. I will then briefly consider political feasibility.

STRATEGY I: BYPASS POLITICIANS

Mechanism A: Exit

The first alternative is to bypass politicians, and make sure citizens get what they want through the possibility, and *implicit* threat, of exit. In this alternative, citizens express their preferences by voting with their feet, as in a conventional market. This alternative is strongly associated with NPM, both in the United States and abroad. Osborne and Gaebler (1992) make "competitive government" one of their ten principles. Canada (Roberts, 1995) and other parliamentary systems have also tried to introduce competition in service delivery.

Exit, of course, need not be used to bypass politicians. Politicians or bureaucrats could use competition as a tool to drive down costs, which is in large part how Osborne and Gaebler envision it being used. But this is not a solution to the problem of citizen control, if the problem is that politicians have the wrong incentives.

Exit by citizens, on the other hand, is incentive-compatible: each customer simply acts in his best interest. This is a significant advantage in a control mechanism. It means that one avoids the free-rider problems that make concerted political action so difficult. There is no need for costly organizing and lobbying. Within an existing political process, exit can provide decision makers with accurate and low-cost information about demand.

To make exit effective, however, in bypassing politicians, it must be self-regulating. That is, a reduction in demand must lead to a reduction in revenues without relying on political intermediation. This is the normal case, of course, in the private sector, where the basic source of revenues is prices charged to customers. In the public sector, it is less commonly the case; the normal case is for revenues to come from appropriations in a political process. Sometimes it is indeed possible to support the organization from user fees or internal service fees, but more often it is not.

When exit can be made financially self-regulating, there is incentive-compatibility on both sides of the exchange. Customers have an incentive to exit when quality gets too low, and managers have an incentive to "stay close to the customer" to keep them from doing so. If, as will often be true in the public sector, exit is not self-regulating, this incentive compatibility cannot be relied upon. NPM has exhorted public-sector managers to stay close to the customer without giving much consideration to this problem. It is, of course, an empirical question whether exhortations will work; sometimes they can be quite powerful. And managers may find personal satisfaction in giving satisfaction to customers. But surely when the funds to keep the organization afloat come from elsewhere, managers will be forced at times to pay attention to other voices than those of their customers.

If managers are self-interested, and exit is not self-regulating, Hirschman (1970) points out that competition may even make problems of unresponsive bureaucracy worse. He gives the example of the state-owned railway in Nigeria, which performed poorly even in the face of strong competition from other modes of transport. His explanation is that competition permitted dissatisfied customers to exit instead of resorting to voice. Because railway management was "always fairly confident it would not be let down by the national treasury," they did not fear revenue losses from exit; in our terms, exit was not self-regulating. As a result, public enterprise in Nigeria and other countries performed the most poorly in those sectors where there was the most competition.

But if exit can be made self-regulating, then we are faced with another dilemma. Why involve government at all? Generally government provision is justified on the basis of some market failure. But a service which can be made financially self-supporting is by definition not a public good; a service in which effective exit is possible is not a natural monopoly; a service in which customers can make informed choices does not suffer from serious information problems. The logic of making government agencies competitive seems to lead inexorably to privatizing them, as has been observed in Canada and New Zealand (Roberts, 1995; Mascarenhas, 1991). Traditionally in the United States, and perhaps now in much of the rest of the world as well, there is little sympathy for the notion that something that can be done well by the private sector should instead be done by the public sector.

If, on the other hand, we take as our prototype of a government function something like child protective services, it seems clear that this is a function that must be financed, at least, in the public sector, and that exit by citizens is not an effective control mechanism here. Exit by *management* may be effective if there is competition to provide services by, say, private nonprofit providers; this is the NPM view of competition discussed above. But again, this does not address the problem we want to address here, the problem of the citizen-politician nexus as the weak link.

Mechanism B: Voice

A second theoretical possibility is to link citizens directly to bureaucrats by providing means for them to express their opinions—particularly their discontent—directly. Hirschman is an advocate for the importance of this mechanism, until then largely ignored by economists. If bureaucrats are (a) public-spirited or (b) want to avoid trouble, they will respond somewhat to voice. Bureaucratic reformers might then want to focus some attention on the question of how to make voice more effective.

The origins of this idea go back at least to Woodrow Wilson (1887/1987), who observed "that administration in the United States must be at all points sensitive to public opinion" (Wilson, 1887:22). Wilson of course recognized the catch here:

> The problem is to make public opinion efficient [i.e. effective] without suffering it to be meddlesome. Directly exercised, in the oversight of the daily details and in the choice of the daily means of government, public criticism is of course a clumsy nuisance, a rustic handling delicate machinery. But as superintending the greater forces of formative policy alike in politics and administration, public criticism is altogether safe and beneficent, altogether indispensable. Let administrative study find the best means for giving public criticism this control and for shutting it out from all other interference (Wilson, 1887:21).

In general "administrative study" has not much taken Wilson's advice to heart. Public administration in the United States has spent much energy first espousing and then rejecting a nonexistent "Wilsonian dichotomy," in which Wilson is supposed to have argued for a rigid separation between politics and administration. They have thus, perhaps, missed a chance to give some serious consideration to the role of citizen voice in public management.

NPM has arguably included the idea of citizen voice under the general rubric of "staying close to the customer." But it has tended to view the customers as rather passive in this process, with their opinions to be elicited by surveys, for example. This might, of course, be a wise strategy, given that the collective-action difficulties referred to earlier make it less likely that customers will voluntarily take an active role in using voice.

The most telling arguments against this alternative, however, go back to the same incentive-compatibility arguments raised earlier against exit as a control mechanism. As we noted, a desire for either the public good or peace and quiet might lead managers to be influenced by voice. But it has long been a cliché in the English-speaking world that he who pays the piper calls the tune. If the customer is paying the piper, managers have an incentive to stay close to the customer. That incentive, as we noted, is absent when elected officials are paying the piper. Ultimately, of course, the money is all coming from citizens, and disgruntlement by citizens may eventually harm the organization. But with politicians making the decisions about money (and thus organizational survival and prosperity), the incentive for managers to focus intensely on citizen voice is weak.

Strategy 2: Change Politicians' Incentives

To recapitulate, I have argued that particular political structures give rise to particular political incentives, which have significant effects on how bureaucratic the bureaucracy is and easy it will be to reform. One possible strategy is to bypass politicians and link bureaucrats directly to citizens. I pointed out some problems with that strategy. If citizens are customers in the sense of supplying the money, if there is competition, and if they are well informed, then it is hard to see why the service needs to be in the public sector at all. If, on the other hand, the money comes from public appropriations, then managers are not able to bypass politicians. The alternative strategy I will consider, then, is to improve political structures: political reform as a precondition for, and means to, bureaucratic reform.

Mechanism A: Exit

Can citizens exert influence on politicians, and perhaps induce them to reform political structures, using the exit mechanism? The realization that exit could be a significant force in politics seems to have come rather late to theorists, starting with the pioneering work of Tiebout (1956).

The implications of Tiebout's model are complex, and have generated a huge volume of research. Clearly one implication is that competition among jurisdictions will create pressures for efficiency. The empirical work is inconclusive, in part due to the difficulty in measuring efficiency (see Dowding, John, and Biggs, 1994 for an extensive discussion).

The idea that competitive pressures might force cities toward bureaucratic reform in spite of political interests to the contrary is a pleasant one. It also puts an interesting perspective on some of the research on diffusion of municipal innovations. For example, Knoke (1982) finds that adoption of Progressive reforms in United States cities was strongly influenced by the extent of their adoption in other cities of the same region. He interprets this as evidence of neighborhood diffusion, but it is also suggestive of Tiebout-style regional competition. Rubin's (1992) finding, discussed above, that less-reformed cities adopted budgetary reforms later than more-reformed ones could similarly be interpreted as showing some cities forced to catch up with others (though in fact her case studies do not seem to provide any direct evidence of that).

Nonetheless, there are some serious drawbacks to relying heavily on Tiebout-style competition to bring about bureaucratic reform. Physical mobility is generally a much costlier form of exit than, say, switching brands of detergent. And limitations on the number of competing jurisdictions in a given area, combined with the variety of service packages that could exist even if all were operating at maximum efficiency, limits the degrees of freedom citizens have to select better-administered cities. Finally, people's mobility across national boundaries (perhaps Americans especially) remains quite limited, so Tiebout competition is not a serious alternative at the national level.

Moreover, there are serious equity issues involved in relying on exit. As Miller (1981) points out, citizens' decisions about jurisdictional boundaries are not necessarily mutually advantageous (or disadvantageous), but may benefit some at the expense of others—the rich, for instance, at the expense of the poor. And Hirschman's example of the Nigerian railway, discussed above, illustrates his point that exit may have the effect of removing just those who would be most likely to complain about poor service. The result may be that while some benefit, others are left behind. It is certainly not obvious that the flight of the middle and upper class from U.S. central cities to the suburbs has had the effect of creating pressure for improved administration of the former.

Mechanism B: Voice

The final alternative is to alter political structures, so as to make bureaucratic reform more feasible. To some, particularly Americans with a focus on the Federal government, this might seem like a counsel of despair, given the extraordinary difficulties of amending the Constitution. But the last decade has witnessed dramatic changes in the political structures of a number of parliamentary countries. In some, such as Italy and Japan, this has been preceded by major scandals that shook the whole political system, but in others, such as New Zealand and Israel, it has not.

Americans, however, need not rely on the example of parliamentary systems, for remarkable reforms in political structures have taken place in the United States. These reforms took place in the late 19th and early 20th century, and were directed principally at municipal government, and to a much lesser degree at state government.

The reforms were directed precisely at the problem we are discussing here: maladministration as a result of poorly functioning political structures, political structures that, in modern terms, severed the principal-agent link between citizens and elected officials. The problems that resulted were by no means abstract or theoretical. In the words of a European observer at the time, "There is no denying that the government of cities is the one conspicuous failure of the United States" (Bryce, 1896/1920:429). Cities were not merely corrupt, but often remarkably ineffective at delivering basic services related to public health and safety.

The movement to reform U.S. municipal government sprang from individuals who had given hard thought to what are now called agency problems. The reformers are undervalued today, in part because their hortatory style sounds naive to modern ears, and in part because, in the intervening half-century, the research agenda in political science was elsewhere.

A case in point is Richard Childs, the father of the city manager movement and founder of the National Short Ballot Organization, which aimed at reducing the number of elective offices in municipal and state governments. Childs's (1911) elaboration of the idea behind the short ballot went roughly as follows: we must take people as they are, rather than as we think they ought to be; there are severe limits to the time and attention of voters; requiring voters to make decisions on a large number of elective offices means that they will be uninformed on many of them; this will effectively pass power to a small oligarchy in charge of nominating decisions; with so many elective offices citizens will be unable to fix responsibility and hold someone accountable; therefore a short ballot, with only the most important offices subject to election, is actually more democratic than the long ballot.

All this seems perfectly natural today, when political scientists are accustomed to discussions of rational ignorance and monitoring. But to earlier generations of political scientists it might as well have been Urdu. East (1965), while by no means antagonistic to Childs, feels compelled to take up the cudgels on behalf of the newer behavioral political science. Thus Childs's discussion of the "mechanism" of government, perfectly natural today when economists talk about "mechanism design," is to East the "machine model," which he associates with a Taylorist obsession with the "one best way"[3] (although he acknowledges that Childs told him he had no familiarity with Taylor).

The short ballot is an interesting example of how political reform can be a path to management reform. An even more interesting example is that of the early civil service movement in the United States. Here is a quintessential management reform: replace employees selected on patronage basis with those selected and promoted on a merit basis. It is natural to suppose now that these earlier management reformers were doing much what modern management reformers are doing: recommending an administrative fix.

But this view is in error. The reformers were trying to improve administration, and they saw civil service as a way to do that. But they saw it less as an administrative solution than as a *political* solution. The model was quite a bit more complex than, "Problem: bad employees. Solution: Replace with good employees." Rather, they saw that to improve administration they needed to defeat the political machines. But how to defeat the machines, given costly monitoring and rational ignorance? First it was necessary to level the playing field. Wilby (1894) remarks: "The good citizens are like the rawest militia arrayed against the regular troops of the boss. The former can often spare but little time from their various pursuits and having already been taxed to provide the sinews of war for their opponents, make further contributions with reluctance, while the latter, living at the public crib, excel at that which is their only trade." The problem, in other words, was that patronage was essential to keeping the machines in power. The solution to this problem was civil service:

> The crying evils of municipal misgovernment do not result directly from filling the lesser offices with incompetent and dishonest servants, who only produce waste and petty corruption. The greatest wrongs are committed by the improper characters who are put into the elective offices by the bosses with that power which the control of smaller places gives them....If the petty places could not be used, the allegiance of the ward workers could not be secured, and without their work the primaries could not be controlled and the nominations dictated....

Today, the evils of municipal misgovernment do not cry nearly as loudly as they did in Wilby's day, thanks largely to the efforts of the reformers. It is therefore easy for today's management reformers to overlook what was once obvious: that political reform influences, and may be a prerequisite for, management reform.

With our greater sophistication today about agency issues, it is surely reasonable to hope that we might be able to add something to the analysis of reformers a century ago—if first we can learn from it. It is important to note that the reformers' focus was as much on changing citizens' incentives as on changing politicians' incentives. Though their writings were often hortatory in tone, the more sophisticated reformers did not rely on exhortation to get citizens to vote out the corrupt machines. Rather, they wanted to construct mechanisms that would enable citizens to make their voices heard, even *given* the rather low level of political participation that could be expected on a normal basis. To be sure, getting those mechanisms into place was a difficult problem that required a higher level of participation (thus the exhortations), but once in place they were easy to sustain.

An advantage of voice in the public sector over voice in the private sector is that voting is actually quite a low-cost activity, as compared with political organizing, writing letters, and so on. A concern of the early reformers, as we have seen, was to level the playing field of political competition. A big remaining problem is to reduce the cost to voters of monitoring politicians' and bureaucrats' behavior..

Here political economy may be able to make some contributions. First, there is a large agency-theory literature, both theoretical and empirical, in financial economics, dealing with monitoring of managers by stockholders. The theory says that stockholders who own large blocks of stock have more incentive to monitor managers, and there is evidence that such firms in fact show performance superior to that of firms with widely dispersed ownership (see the discussion in Jensen and Warner, 1988).

This research may seem irrelevant to the public sector, where in a legal sense every citizen has equal ownership, and ownership rights are inalienable. But in a broader economic sense, the size of one's ownership stake is simply the degree to which one's personal well-being depends on the success or failure of the organization. In that sense it is not hard to see that public housing tenants, say, have more ownership of public housing than ordinary taxpayers do, and so have more incentive to monitor performance, as well as a lower cost of doing so. It may therefore make sense to design such organizations to take advantage of this incentive by establishing clear lines of political accountability and giving tenants the political expertise to carry electoral weight (Frant, 1996b).

The catch here is that there is a fine line, if any, between those with high ownership stakes and self-serving "special interests." And indeed, working in a purely positive political-economy framework that ignores issues of public interest, McCubbins and Schwartz (1984) note that legislators may use interest groups to monitor bureaucrats for them. To turn this idea to normative purposes focused on the citizen as ultimate principal, we need only ask when it might be true that the preferences of citizens at large are aligned with those of the interest group. But this sort of question has been far from the agenda of either New Political Economy or NPM.

For another example of how the road to bureaucratic reform may lead through political reform, consider the example of urban capital investment. There has been a strong tendency for cities in times of fiscal stress (which, for some cities, may be practically all the time) to underinvest in infrastructure. This is in some sense a management problem, but it is not one requiring bureaucratic reform. Staying close to the customer will not help here, for the problem is that citizens are not informed; monitoring the condition of many kinds of infrastructure is too costly. We can give citizens better and clearer information, and exhort them to read it, but this will surely help only at the margin. A more effective approach would be to take citizens as they are, calculate the incentives of politicians given citizens as they are, and design structures that can give citizens what they want within those boundaries. In this case, that might entail the use of structures where political control is *weaker* than normal, such as independent public authorities or governmental corporations (Frant, 1996b).

To sum up, then, both NPM and new political economy have so far been overly limited in their scope. Bringing the normative, citizen-oriented focus of NPM together with the analytical, incentive-oriented focus of new political economy gives a new perspective on a whole range of public management problems, and suggests new arenas in which to look for solutions.

BELLING THE CAT: POLITICAL FEASIBILITY

Earlier, I argued that the adoption of public management reforms depended importantly on the incentives of politicians. We then went on to discuss alternative means for achieving the goal of a better citizen-bureaucrat linkage. It is only fair to ask, then, whether adoption of these sorts of reforms is consistent with those same incentives.

Bypassing Politicians

Exit

Since competition is undergoing extensive experiments right now, its political feasibility is really an empirical question, though research is certainly handicapped by the lack of data on unsuccessful attempts. From a theoretical standpoint, there are two perspectives that may illuminate research in this area.

Moe argues that U.S. legislators "value 'particularized' control: they want to be able to intervene quickly, inexpensively, and in ad hoc ways to protect or advance the interests of particular clients in particular matters" (Moe, 1989:279). To the extent this is true, one might expect legislators to disfavor exit mechanisms, for it is voice that gives them a role. Their role, and their perceived value to clients, is probably greatest under conditions of monopoly supply.

On the other hand, given that voters are not very well informed, politicians who are interested in reelection will tend to look with favor on policies with visible benefits and hidden costs. There may be benefits to politicians in giving up control over disfavored activities, those with hidden benefits and visible costs (Mayhew, 1974; Fiorina, 1985). Indeed, it is not uncommon for to politicians choose to give up control over some area of policy (Frant, 1996a; Patashnik, 1996). We might therefore find that legislators are more receptive to competition for some activities than others.

Voice

Essentially the same arguments apply to voice as a bypass mechanism. Again, whether politicians wish to be bypassed will depend on whether exercising *their* voice will be of political benefit. Under some circumstances, for example those where they can produce a tangible benefit to constituents, politicians may prefer to keep a monopoly on the voice function. Under others, this may simply result in constituent resentment being refocused on them.

Change Politicians' Incentives

Exit

The great advantage of a Tiebout-type competitive mechanism to change the incentives of politicians is that it does not require costly political action. Political feasibility is therefore not an issue. The issue, which we have already raised, is whether such action will be efficient and equitable. How much exit does it take to make politicians feel the pinch? Even if they do, will they identify the problem correctly? How long will the lags be?

Voice

The political feasibility issue is most problematic for the alternative of bureaucratic reform through political reform. Indeed skeptics are inclined to dismiss it as impossible—how can we expect those already in power to welcome changes that may put them out of power? But as mentioned above, major political reform has taken place recently in a number of industrialized democracies, not always in response to a major scandal. This trend has been contemporary with the movement toward NPM. Oddly, there has been virtually no overlap between these two reform trends. The exception is New Zealand, but there electoral reform seems to have been less a companion to management reform than a reaction against it (Nagel, 1994).

What exactly made these political reforms feasible is a question surely worthy of further study. Presumably, both in the parliamentary case and in the U.S. municipal case, some combination of public-spirited behavior by citizens and self-interested behavior by politicians was necessary.

CONCLUSION

My main point in this paper is that bureaucratic reform must be thought of in one piece with political reform. Making organizations work better requires attention to the political structures governing those organizations. To some, this may appear a foolish inversion of priorities. Rosenbloom remarks critically, "In their zeal to promote visions of the public interest, American administrative reformers sometimes seek to remake the political system to serve the needs of better management rather than to develop better management to serve the purposes of the political system" (Rosenbloom, 1993:506). But are these zealous reformers (Rosenbloom specifically mentions Woodrow Wilson) as foolish as they sound? Democratic government's basic purpose, after all, is not to be a debating society or an academy, but to do things for its citizens. Not only its management structures but its political

system must ultimately be judged by this standard. The job of democratic government is not to give politicians what they want, but to give citizens what they want.

NOTES

1. That is, personnel systems where substantial power over hiring, firing and promotion decisions ultimately rests not with the chief executive, but with an independent board.
2. See Frant (1993) for details.
3. "Everyone knows" that this phrase was central in Frederick Taylor's thinking, but I have been unable to find it in his writings, and find many passages that express a quite opposite point of view. DiIulio, Garvey, and Kettl (1993:26) attribute the phrase to Taylor's associate Frank Gilbreth.

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