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The Management and Reform of Japanese Government, 2nd edition (Institute of Administrative Management, 1995)

by Masujima and O'uch

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The Management and Reform of Japanese Government (MRJG), 2nd Edition, edited by Masujima and O'uchi (Institute of Administrative Management, 1995), and *Public Sector Transformation* (PST), by Freider Naschold and Casten von Otter (John Benjamins Publishing Company, 1996), focus on Japan, Germany, and Sweden. The book on Japan, written by people who have traveled in administrative circles as players, students of the subject, or a combination of the two, is a treasure trove of details about administrative reform. It is heavy on descriptions of decision makers' intentions and actions, light on theoretically

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grounded explanations and evidence of consequences. The book on Germany and Sweden, written by students of reform, is light on descriptions of decision makers' intentions and actions, heavy on normative prescriptions and evidence of consequences. It is more narrowly focused than the book on Japan. Both invite but do not offer comparative analysis.

REFORM IN JAPAN

The fourteen chapters and nine appendices in MRJG update and supplement a 1993 edition, which was written to update *Public Administration in Japan*, edited by Kiyoaki Tsuji (Institute of Administrative Management, 1982). The pace of publication mirrors the pace of change during the past 15 years. Readers complained that Professor Tsuji's volume lacked analysis; the editors tried to remedy this by selecting authors who had been associated with government agencies and asked them to describe and analyze the changes. They succeeded, in part.

Masujima sets the tone in the first chapter, which distinguishes between the public and private sectors, and between politics and administration in ways entirely familiar to students of public administration in the West. That does not make the distinctions correct. But they frame his proposals for reform, which emphasize deregulation, decentralization, transparency, personnel exchanges, and improved communication systems. We learn in subsequent chapters that some of these reforms are in process. Unfortunately, we do not learn whether any have been effective. Most of the chapters describe the inputs, the processes, the statutes, and the objectives of reform, with only passing attention to the results. This, however, might reflect a systemic feature of Japanese governance, a point made in Tsukamoto's chapter on the budgetary process (p. 103).

Still, if we treat the assertions in these essays as hypotheses, we would have a research agenda for a lifetime. For example, the chapter on civil service systems and personnel administration attributes Japan's rapid development and adaptability in large measure to job flexibility and to the loyalty of employees to their ministries (ch. 3: 50). The chapter on relationships between the central and local governments, which calls for further decentralization, debates the relative efficiency of central versus local control; the efficacy of general versus block grants; and the tension between the levels of government, borne, to some degree, out of distrust (ch. 4). Surely, some of these claims and debates lend themselves to systematic empirical analysis.

In many ways, this volume identifies features of public management in Japan that are relatively unique. Most notable are

- the creation of a Management and Coordination Agency (MCA), which must clear any proposal for organizational change before it becomes law, cabinet order, or ministerial ordinance (p. 20)

- a "scrap and build principle," under which any ministry or agency requesting creation of a new organizational unit must be ready to abolish an existing organizational equivalent within its ranks (p. 21)
- a principle of organizational division, in which common jurisdictions permeate the ministries and agencies, the committee structure of the national legislature, the policy-making divisions of interest groups, and the policy-making divisions of the ruling parties—the last being the most distinguishing feature (p. 29)
- the control of staff size by the MCA as a function and procedure separate from budgetary control by the Ministry of Finance (p. 31)
- the system of administrative counseling operated by the MCA, in which one independent agency within the executive branch can resolve citizen complaints, relying largely on volunteers in local areas backed by MCA's authority to conduct administrative inspections (ch. 11)

In just as many ways, this volume presents evidence that features of public management are universal. The chapter on the budget process, for example, demonstrates once again that nothing focuses attention on priorities better or gets political juices flowing faster than declining budgets, which in Japan are called "minus ceilings" (p. 96). Budgeting in Japan, as elsewhere, is a political process where competing interests place demands on executive and legislative decision makers; in its end stage, it can be characterized as a "drama leading up to the climax" (p. 100).

In other ways, the essays in this book are out of date. For example, while Japan's budget process might once have been "the foremost mechanism to integrate and coordinate different interests of society toward public policy" (p. 101), the appearance of a government largely paralyzed in dealing with economic malaise during the 1990s suggests that the process has broken down. Moreover, the public sector in Japan is well behind the private sector in capitalizing on information technology to improve operations. To deal with the thorny issues associated with this technology, Masujima promotes solutions that rely on centralization and hierarchical coordination, when everything about the information age and creativity in the 1990s promotes decentralization and flatter, networked approaches to management (ch. 6; see Reschenthaler & Thompson, 1996).

Disguised as a history of the period from 1983–1993, the chapter by Masujima on the RINCHO Administrative Reform, which parallels the Hoover Commission that preceded it, is a textbook recitation of lessons for effecting change (ch. 11):

- Voter interest generates essential political support.
- A nonpartisan, blue-ribbon commission provides political cover, expertise, and integrity; independence and sufficient staff support generate credibility and movement.

- Public input collected on-site throughout the nation establishes legitimacy and promotes acceptance.
- Deadlines focus attention on priorities.
- Recommending changes piecemeal makes them more palatable.
- Media attention matters.
- Attending to follow-up promotes implementation.

In sum, effective change requires strategic thinking and tactical maneuvering. This was one of the most interesting and provocative chapters in the book, lacking only a discussion of the political controversies and the solutions spawned by the proposed changes. Subsequent chapters on privatization and deregulation exhibit comparable strengths and weaknesses.

O'uchi's closing chapter does a good job of summarizing the lessons of administrative reform from the book. It sustains a Japanese perspective on reform, espousing objectives such as organizational effectiveness and the attainment of national development goals, as opposed to, for example, enhancing individual freedom or democratization, which remain secondary. It also reflects a facility for planning, long associated with Japanese governance. In that sense, it remains true to the traditions of public administration, lending primacy to public purposes that motivate public management. The final sentence of MRJG reads, "We believe international comparative studies on administrative reform [of meaningful significance to the grass-root people] should be strengthened not for the ruler, but for the people of the world. . . ."

REFORM IN GERMANY

This is where Naschold and von Otter begin. These are really two related monographs, one about Germany and the other about Sweden. The context for studying these two countries is set in the first chapter by Naschold; it demonstrates, first, the significance of government in the public life of Organization for Economic Cooperation and Development (OECD) nations and, second, the change during the 1980s from 30 years of expanding government activity to stability and then decline. This, he contends, calls for a new philosophy of public management, one that redefines the relationship between public and private responsibilities.

Unlike Japan's government, Germany has lagged behind international trends toward efficiency, total quality management, and a "customer" orientation (p. 20). This, according to Naschold, is not a disadvantage if it means Germany can leapfrog the unproductive battle between the proponents of reform who want to centralize the state (through nationalization), and the proponents who want to minimize the role of the state (through privatizing any government function that is not tied down). Looking at Great Britain as the battleground, Naschold concludes that a competitive environment, and not ownership per se, is the key to efficiency and a customer orientation.

Unlike Masujima and O'uchi, Naschold draws lessons from the consequences of prior reforms, leading him to propose a new method for distinguishing "core" governmental activities (those which must be provided by the state) from "core" private-sector activities. In intermediate categories, the state is the guarantor but not necessarily the provider, depending upon relative cost and efficiency criteria. Since neither a supreme administrative body nor immutable scientific laws can establish this distinction, Naschold puts his faith in democratic constitutional processes to establish it. But he calls upon the analytical firepower of institutional economics to inform the debate, proposing that "tasks which are highly specific and of great strategic relevance should be included in the core area of public-sector activity" (p. 37). If Masujima and O'uchi leave us floundering in a sea of details, Naschold's provocative theorizing leaves us adrift in a fog of abstractions. We are never quite sure what "specific" and "strategic" mean.

Even at this abstract level, Naschold fails to confront a conundrum that has plagued modern political economy at least since the publication of Kenneth Arrow's, *Social Choice and Individual Values* in 1951. In a nutshell, Arrow proved that it is impossible to design a democratic constitutional process that is immune to the risks of dictatorship or inefficiency. Put differently, a group cannot make collective choices as rationally as economics assumes individuals make individual choices; you cannot take the politics out of political institutions. By relying upon constitutional process as his *deus ex machina*, Naschold comes perilously close to placing himself on the administration side of the "politics versus administration" dichotomy. At the very least, his theorizing does not confront the distributional and political imperatives of reform.

Before turning to reform in Germany, Naschold critiques the key themes of public-sector modernization, including the New Public Management. His summary is concise and cogent. His skepticism about transplanting private sector commercial practices onto public sector programs parallels that articulated by Terry Moe (1991). The requirements he posits for public sector modernization in Germany, which bear a strong similarity to the objectives of the RINCHO administrative reforms in Japan, include (1) pruning tasks that government no longer needs to perform, and delegating tasks to appropriate levels of government while facing new responsibilities; (2) allowing citizens to take greater responsibility and exert wider choice through public-private cooperation; and (3) applying efficiency and effectiveness criteria more aggressively in public sector decision-making (p. 62).

Naschold's goal is a thoughtful application and rationalization of the requirements of reform. Masujima and O'uchi describe the specific actions Japan undertook to achieve it. Paradoxically, the Japanese credit Germany for inspiring some of their administrative reforms, while the actions Naschold recommends follow the Japanese model of reform. For example, Naschold calls for ministerial responsibility and accountability for political control over continuously restructuring and redefining government tasks with extensive input from outside constituencies (p. 66).

The discussion of German reform concludes with a laundry list of prescriptions about both the types of administrative reforms to be implemented and the organizational process for implementing them. However valid the prescriptions, the level of generality at which they are presented undermines their plausibility. For example, the merits of management by objective and contract management are well known; Naschold observes without elaborating that such innovations should be initiated "appropriate to the German context and to ensure their implementation in day-to-day implementation." If the devil is in the details, then Naschold could be pointing the way to Hell.

REFORM IN SWEDEN

The winds of reform buffeting Japan and Germany have reached Sweden, the exemplar of the modern welfare state since World War II. Consistent with von Otter's lack of confidence in the purported reasons for reform, he believes it will unleash evolutionary forces of creative destruction, a la Schumpeter, so its consequences can be predicted only in broad outline. The questions that interest him are the same ones that interest the Japanese and the Germans: Have reforms lived up to their promise? What are their long-term implications? And how do markets and free choice square with democratic accountability?

Von Otter describes a change in culture throughout Sweden's public management: from command-and-control to service. He devotes particular attention to trade unions which, despite continuing support among public employers and legal rights of codetermination, found a diminished role for themselves in a leaner government—at least day to day—as a period of austerity lead to declining budgets and reduced public employment. Some of this attended a management shift from rule-based to results-based decisions, and some to a political shift from social democratic control to conservatism. As in Japan and Germany, political leadership emerges as a significant factor in shaping reform, whether through enacting budgets, deregulating businesses, or decentralizing authority and responsibility to local government.

In his third chapter, von Otter examines more closely the transformation of two large social services: health care and public education. Sweden introduced market-like reforms within its public health system, replacing hierarchies with networks of formal and informal agreements among public providers, granting patients the right to choose physicians and treatment sites, and altering compensation mechanisms to promote productivity. As he reports the increased efficiencies associated with these specific changes, von Otter warns against the loss of accountability. However, aside from calling for "dynamic instruments of civic empowerment" (p. 134), he offers no concrete solutions.

Reviewing a body of research that assesses market-like reforms in Sweden, von Otter offers a cautious interpretation. On the whole, reforms have had "broadly satisfactory results, in terms of effects on efficiency, and in bringing costs down" (p. 147). But these results are neither universal nor uniformly significant. The trend toward increasing public employment has been broken. The quality of service delivery, which is so difficult to measure, seems not to have been sacrificed—quite the contrary in terms of provider and customer perceptions for selected services.

Von Otter's concluding chapter asks whether Sweden's welfare state will be "creatively destructed" and offers an optimistic answer. Like Naschold, von Otter turns to transaction cost economics for inspiration, using it to interpret research findings on the efficiency of various reforms and to validate those reforms, such as target pricing. Throughout, von Otter calls for a balance between political accountability and market incentives, a balance to be struck not only among traditional political institutions—elections, due process, and professional self-control—but also through market mechanisms—contestability and choice.

For example, von Otter envisions politicians as monopoly purchasers and planners of services such as public education, contracting with multiple producers driven by market incentives; citizens choose among them. Drawing on insights from transaction cost economics, he recognizes the potential for producers to exploit their greater expertise about the details of service delivery systems to the detriment of the government purchaser and the end consumer. In von Otter's scheme, the monopoly position of the government as purchaser mitigates this potential for exploitation because government can cancel contracts upon evidence of guileful behavior by the producer.

But what about political influence by the producer upon the government's purchasing decisions? What if, absent costly rules of "due process" designed to guard against capricious government decisions, the government as purchaser exploits the producer? To right the "balance" between incentives and accountability, von Otter asks that:

> . . .politicians retain their integrity against providers who are lobbying for advantages, and that the requirements of 'fair trade' do not compel purchasers to base decisions on product price and quality alone, but also on the trustworthiness of the tenderer and other long-term perspectives. (p. 161)

Not surprisingly, he concludes that ". . .decentralized purchasing structures, such as those of voucher systems, pose some severe problems in this respect" (p. 161).

Von Otter's balancing mechanism asks decision-makers in government to be good, yet leads them to temptation. Choice criteria like "the trustworthiness of the tenderer and other long-term perspectives" are ambiguous, untenably so. They invite unremitting assault upon the integrity of politicians because the producers of services will try to use the expanded definition of "fair trade" to destroy their competitors, not the welfare state.

If ". . .politics is the strategic interaction of individuals responding to incentives defined by their institutions" (Knott and Miller, 1987: 255), then the choice of institutions is not neutral. Different parties bear different benefits and costs under different institutional arrangements. Organizations created to guarantee accountability tend to create incentives for individuals to behave in ways that result in inefficiency. Unless von Otter can demonstrate that these issues are less politicized in Sweden and Germany than elsewhere, he invites peril to the extent that he, like the Progressives in the United States, puts faith in apolitical politicians or the professionalism of professionals.

To the extent that von Otter acknowledges the limits of hierarchy and promotes notions of contestable markets, where the potential rather than the reality of competition in providing public services secures the benefits of market incentives, he challenges the classical assumptions of reform. Any reform that (1) builds competition into bureaucratic organizations; (2) creates redundant and overlapping organizational structures rather than simplifying them through specialized functions; or (3) forgoes scientific administration for checks and balances in an administrative system, breathes political conflict into the classical model of reform (Knott and Miller, 1987: 259; Frant, 1996). It acknowledges political reality in a way that might mitigate political excesses predictably and systematically.

From this perspective, strengthening partisan institutions, especially at the local level as responsibility devolves to it, completes the picture of reform. Whether in Japan, Germany, Sweden, or the United States, politics will influence reform. To maximize the chances for success, we need rich detail about implementing reforms as well as careful assessments of their consequences and logical frameworks for understanding them. Masujima and O'uchi and Naschold and von Otter provide details and assessments; however, their logical frameworks require elaboration.

REFORM IN THEORY

One elaboration of Naschold and von Otter's logical framework is to use more of the fundamentals or building blocks of institutional economics. Lynn (1998) comments on the tradeoffs between market-like reforms and accountability:

> Many administrative reforms. . .fail to notice that what they pejoratively deride as bureaucracy run amok is in fact the institutional manifestation of the continuous effort to create responsive, accountable government, to prevent abuse of discretion. The

> government that fails to "serve the customer" is in reality the government that attempts to insure that discretion is not abused, that due process is the rule rather than the exception, and that undue risks are not taken in the peoples' name. (p. 121)

The notions of "discretion" and "undue risks. . .taken in the peoples' name" point to the basic problems that institutional economics addresses: efficient decision-making, uncertainty, and cooperation. This offers a different perspective on issues belabored in both of the books reviewed here—the core functions of government; accountability; and government control of decision-making—and an issue that they sidestep—accounting for the role of politics in public administration. Put differently, we propose to reframe these issues in terms of decision making about the efficient allocation of risk given the costs of information.

Transforming the Theory

Relying on transaction space analysis (Maser, 1998; Coleman et al., 1989), transaction cost economics (Moe, 1984; Williamson, 1985), and game theoretic analyses of bargaining (Heckathorn, 1984), we interpret government activities, including statutes and the organizations that administer them, as long-term contracts that people negotiate to economize on the costs of making decisions (Goldberg, 1976). Social behavior can be understood as people identifying, negotiating, and enforcing agreements among themselves. In this account, consistent with the plea from Masujima and O'uchi, the coercive functions of government derive from the demands of the polity to overcome difficulties in cooperating among themselves, not from the intentions of the governors. The negotiations that legitimize authoritative actions proceed, rather like contracting, under conditions of resource scarcity, uncertainty, and other environmental constraints.

The theoretical argument runs like this (Calabresi, 1970; Williamson, 1991): the world is filled with uncertainties that impose costs on relationships. Information, of course, mitigates uncertainty and, thereby, its costs. Obtaining information, however, is costly as well. Naturally, people cannot agree in advance on their substantive responses to uncertainty, so they craft safeguards to reduce the sum of the costs of uncertainty and of avoiding it.

In this view, the question of accountability becomes: Who should bear the risks, given the cost of information? And the answer is: The parties who are in the best position to act, that is, to minimize the sum of the costs of uncertainty and of avoiding it. The tradeoff between accountability and incentives becomes a question of institutional design: What incentives induce efficient decisions by the parties in the best position to act? Arrangements that fail to optimize these incentives promote "undue" risk-taking.

The theory presumes that relations among people are contractual. People devise different sorts of contracts, either explicit or implicit, to govern their relationships. Contracts facilitate cooperation. They are agreements among two or more people stipulating, first, specific actions by each to be carried out at some time in the future and, second, rewards and penalties to be meted out following compliance. For longer-term relationships, where there tends to be greater uncertainty, contracts become relational, describing the *process* by which specific actions, rewards, and penalties will be decided. The terms in these contracts safeguard individual interests.

Contracting among two or more private parties requires resolving three distinct but intertwined problems of coordination, division, and defection. These can be characterized separately in terms of three pure games, or together in a mixed-motive game, termed the *divisible prisoner's dilemma*. Resolving these problems places demands on people to acquire and process information. To satisfy those demands, people must expend transaction resources. Transaction resources include (1) the prerequisites for negotiating (e.g., communication channels with which to bargain, independent sources of pertinent information with which to assess competing claims, and information-processing capacities); and (2) the prerequisites for enforcing contracts; (e.g., the ability to monitor compliance and to sanction noncompliance).

People incur search costs when they do not know what alternatives are feasible; that means cooperation can fail because of coordination problems. People incur bargaining and decision costs because they do not know which alternatives are inequitable; cooperation can fail because of division problems—the central concern of politics, typically ignored by economists and administrative reformers. Finally, people incur monitoring costs because they do not know whether the parties will comply; cooperation can fail because of defection problems. Combinations of these circumstances may arise, creating more complicated problems.

Every group of people has within it a finite stock of transaction resources with which to secure cooperation. Typically, they have communication channels, sanctioning abilities, and established norms. Under these circumstances, private contracting flourishes. But as relationships become more complicated (owing, for example, to a greater number of participants, greater heterogeneity or distances among them, greater risk aversion, etc.) the capacity of their resources to sustain cooperation becomes problematic. These conditions increase the amount of information that must be acquired, communicated, processed, or verified during the process of contracting. They increase the uncertainty to which a given quantity of endogenous transaction resources must apply. In sum, the group's prior investment in transaction resources and the informational complexity of the transaction place bounds on private cooperation. Private contracting, then, will fail.

Table 1. Core Functions of Government

Transaction Resource Deficiency			Core Government Function
Search	*Bargaining*	*Defection*	*Dominant Activity*
Yes	No	No	Planning
No	Yes	No	Arbitrating
No	No	Yes	Enforcing
Yes	Yes	Yes	All

The Core Functions of Government

The failure of private contracting creates an incentive for the parties to seek assistance from a third party. A third party facilitates contracting by adding transaction resources to those already present in the relationship. Depending on the source of the resource deficiency, the nature of third-party intervention differs. Supplying some of the analytical firepower Naschold requires to identify core areas of government activity, the theory suggests three polar cases. The specific and strategic relevance of each is its contribution to promoting efficient cooperation (see Table 1) (Heckathorn and Maser, 1990).

First, if communication channels are poor among parties who have no serious defection or division problems, the centralized channels and information processing services provided by a third party who *plans* might be sufficient to induce cooperation. Otherwise, gains might go unrealized, owing to the large number of parties or their geographic dispersion. This sort of government activity will tend to be the least controversial because the people affected have a common interest in planning and lack opposing interests on how planning should take place. A simple example of a pure case is that people want everyone to drive on the same side of the road; they do not care which side so long as someone makes an authoritative decision.

Empowering government to resolve a coordination problem by planning does not necessarily mean empowering government to distribute the resulting benefits or to punish people who do not comply. And while the primary incentive for granting government this power is efficiency, that does not preclude waste, corruption, and inefficiency. When the economic stakes are small, people tend to accept a degree of inefficiency as a cost of third-party intervention. When the stakes increase, as in a multijurisdictional watershed project or space exploration, division and defection problems can come to dominate decision making. That is when accountability becomes a matter of concern.

Secondly, if parties recognize that there are gains to be realized from cooperation, but are unable to agree upon a distribution of them, the coalition-building services provided by a third party who, in effect, *arbitrates* among competing interests might be sufficient to induce cooperation. This division problem derives from the cost of bargaining; the parties value different outcomes differently and value any one of those outcomes over failing to agree, but are unwilling to make concessions. The third party may be granted discretion to allocate the gains from cooperation or merely to narrow the range of possible divisions. The parties are primarily concerned about the risks of unfair divisions and the costs of safeguarding against them. In exercising discretion, the third party invariably engages in search activities, identifying affected parties and unfair outcomes, but works primarily to define and generate support for an acceptable division of gains.

An example of a pure case would be members of every jurisdiction typically having preferences about fairness and equity, which are then often reflected in social welfare programs and tax burdens. Those preferences can change. The costs of resolving conflicts among these preferences are higher than in the case of a pure coordination problem, which is why a third-party decision maker can be productive. Decisions will be more controversial. People will expect the third party to be responsive to changes in their preferences, as well.

Empowering government to articulate and implement a notion of fairness or justice does not necessarily entail empowering government to punish defection. Solving the defection problem might not be significant. The parties might have ample internal enforcement resources or the incentives to defect could be weak. For example, an individual citizen who is eligible for welfare benefits typically can find out about and obtain them at low cost compared to the transaction costs of deciding upon the depth and breadth of the social program itself.

Thirdly, if the parties recognize the potential for gains from cooperation, and can agree on their distribution but can not easily assure themselves of compliance with their agreement, the monitoring services provided by a third party who *enforces* the agreement might be sufficient to induce cooperation. The defection problem is the most intractable, controversial, and costly part of any relationship. Establishing a force of agreement sufficient to induce cooperation requires more information than either the coordination or division problems require. The third party must know each party's defection incentive under circumstances when the parties have incentives to mislead.

A third-party policing agent may be granted discretion to punish defectors so as to increase the force of contractual agreements. If only because crafting a proper force of agreement is particularly costly, the policing agent will also be empowered to engage in search and arbitrating activities. Common law enforcement of property rights, an information-intensive activity, is an example. The features that make markets such attractive governance systems—anonymity, disaggregated decisions adaptive to local circumstances—exacerbate the endemic risks of defection. If the possibility of third-party enforcement diminishes defection risks, then people will expend more resources on searching for and securing feasible and fair agreements. Hence, while private parties certainly have some capacity to enforce agreements on their own, access to a system of judicially crafted safeguards is widely regarded as promoting economic efficiency.

ACCOUNTABILITY

Accountability takes different forms in different functions. It matters most when government acts like an enforcer. For example, because a coalition-building third party might misread the polity's sense of fairness, as in deciding upon general welfare or tax policies, these decisions will tend to be made by statute through officials most directly accountable to the polity. The chief risk taker is the elected executive who spots a potential gain from articulating and legitimating an acceptable division to resolve a conflict across a larger jurisdiction; legislators ratify that. As political entrepreneurs, elected executives stand or fall on their skill at building and sustaining coalitions. We put them in the best position to balance competing interests and, by holding them accountable for failing to do so, we create incentives for them to effect political decisions as efficiently as possible.

Extend this logic into the organizations given responsibility for implementing policies, and we can begin to understand accountability in public administration. As a structure for governing individual behavior, an organization can be characterized by a set of contracts among its members. Different forms of organization reflect different contractual terms that people devise to deal with specific problems they experience in their transactions. The focus of the analysis, then, is not the organization, the polity, or even the individual; it continues to be the contractual relationship. An organization so defined is a fiction, of course, but a useful one because it isolates for closer inspection the costs of contracting as a central feature of organizational life.

Internal accountability in public administration should be most elaborate and, hence, most costly, where decision makers have been afforded the greatest discretionary authority and, hence, risk of error. Central substantive review and associated procedural safeguards would be most likely among government agencies involved in enforcement activities. Performance and expenditure review would be more likely among agencies implementing division decisions; indeed, public managers who implement these sorts of statutes have far less discretion over the population at large than the elected officials who engage in the great debates over social policies. Access to internal appeal mechanisms for individual claimants, as well as oversight by the judiciary and by elected officials, create incentives for public administrators to avoid "undue risks."

Consider institutional arrangements for providing education, especially the difficulties in implementing voucher systems for education that concern von Otter. The problem can be viewed as one of control over decision-making and the distribution of risk, not just because unionized teachers and bureaucrats have stakes in the status quo, but because parents and children are at risk. It is a tenet of the school choice movement that ineffective schools will succumb to competition. But teachers and principals will not be the only ones to bear the risk of failing. Students will also. Will three months at an ineffective school be debilitating? Three years?

Who, then, should be accountable for controlling the resources required for educational services? The answer: the people in the best position to minimize the sum of the costs of the risks and of safeguarding against them. We know that democratic control of schools can generate stifling bureaucracies that fail to provide educational services efficiently or effectively (Chubb and Moe, 1990). By comparison, parental choice and accountability looks better, but the transition from one arrangement to the other will be difficult unless reformers can at reasonable cost reduce the risks confronted by parents and children.

Because education can reinforce, if not change, the content of individual values and preferences, its production can be acutely political. Agents empowered and constrained by explicit statutory authority would exercise discretion over the elements of production involving intense political debate. In the U.S., where preferences on these matters can be quite disparate, these elements include the siting of a school and the facilities it will contain, its curricular policies, even the content of texts and personnel matters—the stuff of school politics. Elected officials have been making these decisions. Where the decisions are less political, school boards and school officials might be involved in planning, but not in production. They typically do not own the resources for constructing the school buildings, or the publishing houses or printing plants that produce texts. The private owners of those resources are in the best position to make efficient production decisions and to be held accountable for their output.

CONCLUSION

The theoretical approach suggested here recasts some of the fundamental concerns about reforming public administration that are expressed in *The Management and Reform of Japanese Government* and *Public Sector Transformation*. Drawing the line between democracy and bureaucracy, or accountability and incentives, or policy and administration, translates into identifying the organizational form that collects and uses information efficiently—including information about political imperatives, which are an unavoidable part of human behavior. If confusion exists because the line defining discretion appears to be drawn at different places in different organizations, that is because we misunderstand the different tradeoffs involving information costs and the risks associated with cooperating in different environments.

About reform we can say this: The study of reform is the study of changes in the environment that induce people to incur the costs of changing an organization. The existence of an organization is derived from the demand for the final goods and services it can produce and for its particular pattern of distributing those goods and services. That organizations persist says something about inertia. Inertia is shorthand for "costly to change." When the conditions that gave rise to an organization change, organizations can change. To craft reforms that are appropriate to a Japanese, German, or Swedish "context" means to take into account the conditions that make cooperation problematic in each, thereby banishing the devil from the details. To promote reforms without doing this is a sin. To promote reforms maladapted to the vagaries of current conditions is a greater sin. To promote one best organizational reform is perhaps the greatest sin of all.

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