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Reform in Lieu of Change: Tastes Great, Less Filling

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In this response to Light, Koppell argues that the increasing frequency of reform may reflect Congress's inability to make significant changes to the substance of entrenched government programs. Moreover, he observes that the more profound evolution in government has been the movement toward market-based provision of services, which has created demand for new competencies in the public sector.

In writing about the nature of bureaucratic reform, Paul Light may have chosen his metaphor too skillfully. His "tides of reform" perfectly capture the phenomenon he has meticulously documented. He makes it seem natural, inevitable, and perhaps a bit *too* unremarkable.

Light's model demonstrates the relentless, if aimless, march of reform. In the mode of a geologist, Light looks at the thickness of sedimentary layers of legislation to determine what was going on during key historical periods. In recent decades, for example, we have seen a dramatic increase in the rate of accretion for reform measures. The explanation (probably) lies not in a volcanic eruption or meteor impact but in something else, some greater change in the American political system.

Although Light explores the rise of "liberation" reform at seemingly dissimilar moments in American history and the correlation of "watchful eye" reform with public distrust, the *meaning* of all these waves remains unclear. Putting aside the question of whether all this reform works—that is, whether it makes government better at achieving its objectives—what does the reform frenzy tell us about the state of polity? Or perhaps less grandiosely, can the phenomenon that Light captures be viewed as an indicator of something more profound?

The first possibility is that reform—or more accurately, reform *legislation*—has emerged as a substitute for actual change, which is effectively impossible in the current political environment. Jonathan Rauch (1994) has characterized the American political system as suffering from "demosclerosis," that is, incapable of moving as a consequence of powerful interest groups and electoral incentives of legislators and bureaucracies intent on protecting budgets and full-time equivalent employees.

Clearly, it is hyperbole to say that *nothing* happens. The last decade or so has seen significant alterations in federal welfare and education policy.

But programs are rarely eliminated or consolidated, even when doing so would make a great deal of sense. New programs are often dead on arrival because budget constraints mandate the elimination of some existing item to pay for them. "Issue networks" may have metaphorically supplanted "iron triangles," but they are no less formidable as a source of systemic inertia (Heclo 1978). Constituencies are mobilized, subcommittee chairmen fiercely protect their hard-won terrain, and agency officials tenaciously sink their claws into budget authority that will never be seen again once it is retracted.

Only by pulling the process out of the political meat grinder through extralegislative mechanisms such as the Base Realignment and Closure Commission does it seem these combined forces can be overcome. It matters not whether efforts to pare back this or that agency are motivated by narrow political interest or high-minded concern for the effective functioning of government. The overwhelming majority of such efforts have failed. It is simply too hard to really change anything.

Thus, the reform measures that Light counts are feeble yet feasible substitutes for renovation. Their popularity is a sign that many members of Congress and others in the federal policy-making universe have essentially given up on change. Reform is "change lite"—less satisfying but attainable. Still, it feeds the illusion (delusion?) that Congress is actively engaged in the business of public administration. Of course, Congress engages in the yearly budget and appropriations process, the most formidable tool at its disposal for oversight of the vast federal bureaucracy. But it has its limitations. The change in the year-to-year budget is rather limited, particularly the discretionary portion of the budget, which is ostensibly where Congress can exercise the most influence. Previous budget decisions as well as the agenda-setting power of the White House and permanent bureaucracy further circumscribe congressional authority (Kettl 1989). The budget is a blunt tool, and it, too, has been dulled by the ceaseless grinding away of interest group politics.

Management reform may be the most accessible means available to legislators who are unhappy with the status quo. It may be easier to attempt to alter the substance of a federal program through general reform than by direct attack. The across-the-board introduction of cost–benefit analysis for new regulations illustrates this idea. Widely acknowledged as having the intent of curtailing many agencies' regulatory efforts, its passage may have been more likely than any bill aimed at shutting down or retrenching an individual regulatory agency.[1]

Light acknowledges Terry Moe's powerful observation that many government agencies are "designed to fail." Losers of legislative battles are often able to sow the seeds of bureaucratic failure in the design of government agencies created against their wishes. Moreover, the winners may saddle agencies with burdensome designs to prevent future generations from undermining their victory. What Light does not consider is that these observations apply equally to reform efforts! In assuming that all reform is intended to make government work better, Light shows natural "good government" instincts when a little more cynicism is probably in order. Surely, the features of a reform bill are as likely to include subversive elements as legislation creating a new entity.

Therefore, the problem of measuring whether any reform has "worked" is even more vexing than Light suggests. The reform may never have been expected to work in the first place—if by "work," we mean, "make the government agency function more effectively." The reformer may have judged success by the increased inertness of the bureaucracy.

Are we to conclude, then, that government remains static, ever unchanging? Of course not. But it isn't clear that the study of legislative reform captures the most interesting metamorphosis. It is, of course, terribly unfair to criticize a comprehensive study on one topic for failing to cover everything else. Nevertheless, one limitation of Light's study of reform during the last 60-odd years is that it artificially circumscribes the world. If we consider a much broader conception of reform, one that includes gradual shifts in the approach to public policy embodied in the whole panoply of government programs, then the examination of reform legislation provides only a partial glimpse. It is as if we were commenting on the state of the world's oceans based on tidal observations from a perch on a single beach.

The irregular movements from one reform philosophy to another do not fully capture slower shifts in the general conception of government's role in society. Nor can we truly appreciate how the expectations for government intervention in the economy or society have changed over the years by interpreting the data Light has compiled.

Although there has been little consistency within the reform universe, a general trend is observable from a few steps further back. In the last three decades, the government's delivery of public goods has increasingly come to depend on markets and private-sector organizations. This is true in ways that are both prosaic and profound.

The contracting of public services is nothing new. But as public administration scholars and professionals have noted (with Light leading the way), the reliance on contractors has accelerated in the last 25 years at every level of government, and it has been motivated by two factors. One is ideological: the belief that private-sector organizations are inherently more efficient and effective than government agencies. The second is political: the desire to reduce the apparent size of government by shifting employment from federal bureaucracies to the contractors who work for them (usually at greater net expense). The effect has been especially profound in some agencies. The U.S. Agency for International Development, for example, has evolved into a manager of contracts, relying on a host of "beltway bandits" to implement most of its programs (Office of the Vice President 1993). Over the long term, such evolution has literally changed the shape of government, with government bureaucracies rendered top heavy as actual service providers are increasingly employed by private firms (Light 1999).

More significant is the use of market-based mechanisms in place of traditional administrative tools. The cutting edge of this trend is in the regulatory arena. Command-and-control-style regulation, after years of being pilloried, is being pushed aside by novel approaches (Keohane, Revesz, and Stavins 1998). In the area of emissions regulation, for example, permit trading places the reduction decisions in the hands of firms. This logic has been extended to land use, in which grazing permits and mineral-extraction rights have been auctioned (so far on a pilot basis). This approach uses the market to determine the "value" of the privilege to consume a public good and even shifts political activism to the marketplace by giving environmentalists an opportunity to purchase land-use privileges or pollution permits.[2]

Other uses of the marketplace are already institutionalized and viewed as models to be extended to new areas. Government insurance and loan-guarantee programs are vital public policy tools in a wide range of policy areas, including agriculture, housing, trade, international development, energy, small business, and so on. Such programs attempt to effect change not by direct expenditure but by altering the incentives of private-market participants. This has the major benefit of reducing outlays while increasing risk. Government's capability is pared with this approach, limited to the extent that it can shape the incentives of profit-driven actors.

Pushed by changes in budget rules, fiscal constraints, and a belief that market instruments are more effectively wielded by institutions that are designed to function in the marketplace, the last few decades have seen increasing reliance on public-sector institutions that look more like private-sector organizations. Experimental during the First World War, the permanent population of government corporations boomed during and following World War II. Interestingly, government corporations have become, in many respects, indistinguishable from government agencies. They are on budget, receive appropriated dollars, and are staffed by presidential appointees and civil servants. Indeed, the definition of a government corporation is so ambiguous that a Government Accountability Office study of such organizations relied on entities to determine whether they were, in fact, government corporations (GAO 1995).

What makes a "true" government corporation different from an agency is its generation of revenue, which typically covers its costs. This represents a departure from the traditional agency model because it introduces return as a constraint rather than the traditional, legislatively determined budget. Admittedly, for most government corporations, this is not a hard constraint because their budgets are not literally constrained by revenues, but its effect is real. Managers of government corporations must shape activities with the goal of breaking even (Koppell 2003).

Strange mutations of the basic government corporation have spread across the governmental landscape. Most are surprised to learn of the federal government's extensive lineup of venture capital funds, for example. Both the Overseas Private Investment Corporation and the U.S. Agency for International Development oversee a portfolio of government venture capital funds.[3] Most intriguing is the Central Intelligence Agency's In-Q-Tel, a technology fund named after the gadget wizard, Q, of the James Bond films.

Two other public–private "hybrids" have funny names as well, but their financial heft and centrality in the U.S. housing market make Fannie Mae and Freddie Mac serious business. The two companies are government-sponsored enterprises (GSEs); both are publicly traded on the New York Stock Exchange and endowed with special privileges by their creator, Congress. Fannie and Freddie must not only break even, they owe a profitable return to their shareholders while meeting regulatory demands for fiscal safety and attainment of public policy goals. Congress is currently considering legislation that would revamp the regulatory infrastructure for the housing GSEs in the face of revelations of financial mismanagement and perennial concerns that the two companies are not doing enough to justify their effective federal subsidy.

These developments represent the new face of government. It is the embodiment of reform that is not tidal but tectonic, slowly altering the contours of the public sector. Interestingly, the emergence of governance in its new form is making it clearer than ever that *true* reform is necessary if the state is to remain effective in its new guise. In this respect, there are three priorities.

First, our understanding of regulation must catch up with reality. Government will be under increasing pressure to develop more market-based alternatives to traditional regulation, and traditional approaches must be adapted to meet new demands. Hybrid organizations have less formal links to the federal bureaucracy than traditional agencies; they are not on budget, they are not staffed by appointees, and they are exempt from management laws. Generally, they are "controlled" through regulatory relationships rather than by administration. To make hybrids work as instruments of public policy, government will have to get better at using regulation as a substitute for administration.

Second, the reliance on contractors is placing a premium on contract management as a government skill. In the coming years, the skillfulness with which this function is executed—designing tasks, soliciting bids, monitoring and measuring performance—will be the crucial determinant of government effectiveness.

Finally, use of market-based mechanisms such as loan guarantees and insurance represents an intelligent leveraging of the U.S. government's creditworthiness. It creates public goods without adding to public debt, but it also poses incredible risk to the public. At present, however, the federal government has not demonstrated the ability to be a sound risk manager. This is perhaps the greatest reform needed in government today. With trillions of dollars in outstanding liability, the federal government is sitting on a financial powder keg that could explode under trying circumstances. If Congress is serious about getting back into management, it needs to pass up the next opportunity for "paperwork reduction" or "performance and results" and do something about risk management.

Would that be liberation, scientific management, watchful eye, or war on waste?

Notes

1. In fact, the Risk Assessment and Cost-Benefit Act of 1995 and several successors failed to get congressional approval, although some aspects of this and similar bills have been implemented by executive order (Anderson, Chirba-Martin, Elliott, et al. 1989).
2. This strategy is under attack from those who argue that environmentalists should not be allowed to purchase grazing rights with the intention of letting them remain ungrazed. In the American tradition, litigation has commenced (Heilprin 2005).
3. Each set of funds has very different structure.

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