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From *Bureaucracy: What Government Agencies Do and Why They Do It*

JAMES Q. WILSON

Woodrow Wilson was merely the first in a long line of reformers to suggest that government might be more efficient if it were run more like a business. The sentiment remains today. Perhaps a more "businesslike" government would issue our income tax refunds more promptly, protect the environment at lower cost, and impose fewer burdens on citizens. The catch is, we want all this at low cost and minimal intrusiveness in our lives, yet we want government bureaucracies to be held strictly accountable for the authority they exercise.

James Q. Wilson argues that government will never operate like a business, nor should it be expected to. His comparison of the Watertown, Massachusetts, Registry of Motor Vehicles (representing any government bureaucracy) with a nearby McDonald's (representing any private profit-seeking organization) shows that the former will most likely never service its clientele as does the latter. The problem is not bureaucratic laziness, but is instead due to the very different characteristics of public versus private enterprises. In order to understand "what government agencies do and why they do it," Wilson argues we must first understand that government bureaucracies operate in a political marketplace, rather than an economic one. The annual revenues and personnel resources of a government agency are determined by elected officials, not by the agency's ability to meet the demands of its customers in a cost-efficient manner. The government agency's internal structure and decision-making procedures are defined by legislation, regulation, and executive orders, while similar decisions in a private business are made by executive officers and management within the organization. And, perhaps most critical, a government agency's goals are often vague, difficult if not impossible to measure, and even contradictory. In business, by contrast, the task is simpler. The basic goal of a private business has always been to maximize the bottom line: profit. While we should not approach the reform of government agencies the way we might a private bureaucracy, Wilson notes we should nevertheless try to make government bureaucracies operate more effectively and efficiently.

By the time the office opens at 8:45 A.M., the line of people waiting to do business at the Registry of Motor Vehicles in Watertown, Massachusetts, often will be twenty-five deep. By midday, especially if it is near the end of the month, the line may extend clear around the building.

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Inside, motorists wait in slow-moving rows before poorly marked windows to get a driver's license or to register an automobile. When someone gets to the head of the line, he or she is often told by the clerk that it is the wrong line: "Get an application over there and then come back," or "This is only for people getting a new license; if you want to replace one you lost, you have to go to the next window." The customers grumble impatiently. The clerks act harried and sometimes speak brusquely, even rudely. What seems to be a simple transaction may take 45 minutes or even longer. By the time people are photographed for their driver's licenses, they are often scowling. The photographer valiantly tries to get people to smile, but only occasionally succeeds.

Not far away, people also wait in line at a McDonald's fast-food restaurant. There are several lines; each is short, each moves quickly. The menu is clearly displayed on attractive signs. The workers behind the counter are invariably polite. If someone's order cannot be filled immediately, he or she is asked to step aside for a moment while the food is prepared and then is brought back to the head of the line to receive the order. The atmosphere is friendly and good-natured. The room is immaculately clean.

Many people have noticed the difference between getting a driver's license and ordering a Big Mac. Most will explain it by saying that bureaucracies are different from businesses. "Bureaucracies" behave as they do because they are run by unqualified "bureaucrats" and are enmeshed in "rules" and "red tape."

But business firms are also bureaucracies, and McDonald's is a bureaucracy that regulates virtually every detail of its employees' behavior by a complex and all-encompassing set of rules. Its operations manual is six hundred pages long and weighs four pounds. In it one learns that french fries are to be nine-thirty-seconds of an inch thick and that grill workers are to place hamburger patties on the grill from left to right, six to a row for six rows. They are then to flip the third row first, followed by the fourth, fifth, and sixth rows, and finally the first and second. The amount of sauce placed on each bun is precisely specified. Every window must be washed every day. Workers must get down on their hands and knees and pick up litter as soon as it appears. These and countless other rules designed to reduce the workers to interchangeable automata were inculcated in franchise managers at Hamburger University located in a $40 million facility. There are plenty of rules governing the Registry, but they are only a small fraction of the rules that govern every detail of every operation at McDonald's. Indeed, if the DMV manager tried to impose on his employees as demanding a set of rules as those that govern the McDonald's staff, they would probably rebel and he would lose his job.

It is just as hard to explain the differences between the two organizations by reference to the quality or compensation of their employees.

… buy stock in the firm so that they can profit from any growth in earnings (and, if they sell the stock in a timely manner, profit from a drop in earnings). Should a public bureaucrat be discovered trying to do what private bureaucrats routinely do, he or she would be charged with corruption.

We take it for granted that bureaucrats should not profit from their offices and nod approvingly when a bureaucrat who has so benefited is indicted and put on trial. But why should we take this view? Once a very different view prevailed. In the seventeenth century, a French colonel would buy his commission from the king, take the king's money to run his regiment, and pocket the profit. At one time a European tax collector was paid by keeping a percentage of the taxes he collected. In this country, some prisons were once managed by giving the warden a sum of money based on how many prisoners were under his control and letting him keep the difference between what he received and what it cost him to feed the prisoners. Such behavior today would be grounds for criminal prosecution. Why? What has changed?

Mostly we the citizenry have changed. We are creatures of the Enlightenment: We believe that the nation ought not to be the property of the sovereign; that laws are intended to rationalize society and (if possible) perfect mankind; and that public service ought to be neutral and disinterested. We worry that a prison warden paid in the old way would have a strong incentive to starve his prisoners in order to maximize his income; that a regiment supported by a greedy colonel would not be properly equipped; and that a tax collector paid on a commission basis would extort excessive taxes from us. These changes reflect our desire to eliminate moral hazards—namely, creating incentives for people to act wrongly. But why should this desire rule out more carefully designed compensation plans that would pay government managers for achieving officially approved goals and would allow efficient agencies to keep any unspent part of their budget for use next year?

Part of the answer is obvious. Often we do not know whether a manager or an agency has achieved the goals we want because either the goals are vague or inconsistent, or their attainment cannot be observed, or both. Bureau chiefs in the Department of State would have to go on welfare if their pay depended on their ability to demonstrate convincingly that they had attained their bureaus' objectives.

But many government agencies have reasonably clear goals toward which progress can be measured. The Social Security Administration, the Postal Service, and the General Services Administration all come to mind. Why not let earnings depend importantly on performance? Why not let agencies keep excess revenues?

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clear goals and readily observ… making political (and thus conflict-ridden) judgments. If the Welfare Department delivers every benefit check within 24 hours after the application is received, Senator Smith may be pleased but Senator Jones will be irritated because this speedy delivery almost surely would require that the standards of eligibility be relaxed so that many ineligible clients would get money. There is no objective standard by which the tradeoff between speed and accuracy in the Welfare Department can be evaluated. Thus we have been unwilling to allow welfare employees to earn large bonuses for achieving either speed or accuracy.

The inability of public managers to capture surplus revenues for their own use alters the pattern of incentives at work in government agencies. Beyond a certain point additional effort does not produce additional earnings. (In this country, Congress from time to time has authorized higher salaries for senior bureaucrats but then put a cap on actual payments to them so that the pay increases were never received. This was done to insure that no bureaucrat would earn more than members of Congress at a time when those members were unwilling to accept the political costs of raising their own salaries. As a result, the pay differential between the top bureaucratic rank and those just below it nearly vanished.) If political constraints reduce the marginal effect of money incentives, then the relative importance of other, nonmonetary incentives will increase. . . .

That bureaucratic performance in most government agencies cannot be linked to monetary benefits is not the whole explanation for the difference between public and private management. There are many examples of private organizations whose members cannot appropriate money surpluses for their own benefit. Private schools ordinarily are run on a nonprofit basis. Neither the headmaster nor the teachers share in the profit of these schools; indeed, most such schools earn no profit at all and instead struggle to keep afloat by soliciting contributions from friends and alumni. Nevertheless, the evidence is quite clear that on the average, private schools, both secular and denominational, do a better job than public ones in educating children. Moreover, as political scientists John Chubb and Terry Moe have pointed out, they do a better job while employing fewer managers. Some other factors are at work. One is the freedom an organization has to acquire and use labor and capital.

Acquiring and Using the Factors of Production

A business firm acquires capital by retaining earnings, borrowing money, or selling shares of ownership; a government agency (with some exceptions) acquires capital by persuading a legislature to appropriate it. A business firm hires, promotes, demotes, and fires personnel with considerable though not perfect freedom; a federal government agency is told by Congress how many persons it can hire and at what rate of pay, by the Office of Personnel Management (OPM) what rules it must follow in selecting and assigning personnel, by the Office of Management and Budget (OMB) how many persons of each rank it may employ, by the Merit Systems Protection Board (MSPB) what procedures it must follow in demoting or discharging personnel, and by the courts whether it has faithfully followed the rules of Congress, OPM, OMB, and MSPB. A business firm purchases goods and services by internally defined procedures (including those that allow it to buy from someone other than the lowest bidder if a more expensive vendor seems more reliable), or to skip the bidding procedure altogether in favor of direct negotiations; a government agency must purchase much of what it uses by formally advertising for bids, accepting the lowest, and keeping the vendor at arm's length. When a business firm develops a good working relationship with a contractor, it often uses that vendor repeatedly without looking for a new one; when a government agency has a satisfactory relationship with a contractor, ordinarily it cannot use the vendor again without putting a new project out for a fresh set of bids. When a business firm finds that certain offices or factories are no longer economical it will close or combine them; when a government agency wishes to shut down a local office or military base often it must get the permission of the legislature (even when formal permission is not necessary, informal consultation is). When a business firm draws up its annual budget each expenditure item can be reviewed as a discretionary amount (except for legally mandated payments of taxes to government and interest to banks and bondholders); when a government agency makes up its budget many of the detailed expenditure items are mandated by the legislature.

All these complexities of doing business in or with the government are well-known to citizens and firms. These complexities in hiring, purchasing, contracting, and budgeting often are said to be the result of the "bureaucracy's love of red tape." But few, if any, of the rules producing this complexity would have been generated by the bureaucracy if left to its own devices, and many are as cordially disliked by the bureaucrats as by their clients. These rules have been imposed on the agencies by external actors, chiefly the legislature. They are not bureaucratic rules but *political* ones. In principle the legislature could allow the Social Security Administration, the Defense Department, or the New York City public school system to follow the same rules as IBM, General Electric, or Harvard University. In practice they could not. The reason is politics, or more precisely, democratic politics.

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Public versus Private Management

What distinguishes public from private organizations is neither their size nor their desire to "plan" (that is, control) their environments but rather the rules under which they acquire and use capital and labor. General Motors acquires capital by selling shares, issuing bonds, or retaining earnings; the Department of Defense acquires it from an annual appropriation by Congress. GM opens and closes plants, subject to certain government regulations, at its own discretion; DOD opens and closes military bases under the watchful guidance of Congress. GM pays its managers with salaries it sets and bonuses tied to its earnings; DOD pays its managers with salaries set by Congress and bonuses (if any) that have no connection with organizational performance. The number of workers in GM is determined by its level of production; the number in DOD by legislation and civil-service rules.

What all this means can be seen by returning to the Registry of Motor Vehicles and McDonald's. Suppose you were just appointed head of the Watertown office of the Registry and you wanted to improve service there so that it more nearly approximated the service at McDonald's. Better service might well require spending more money (on clerks, equipment, and buildings). Why should your political superiors give you that money? It is a cost to them if it requires either higher taxes or taking funds from another agency; offsetting these real and immediate costs are dubious and postponed benefits. If lines become shorter and clients become happier, no legislator will benefit. There may be fewer complaints, but complaints are episodic and have little effect on the career of any given legislator. By contrast, shorter lines and faster service at McDonald's means more customers can be served per hour and thus more money can be earned per hour. A McDonald's manager can estimate the marginal product of the last dollar he or she spends on improving service; the Registry manager can generate no tangible return on any expenditure he or she makes and thus cannot easily justify the expenditure.

Improving service at the Registry may require replacing slow or surly workers with quick and pleasant ones. But you, the manager, can neither hire nor fire them at will. You look enviously at the McDonald's manager who regularly and with little notice replaces poor workers with better ones. Alternatively, you may wish to mount an extensive training program (perhaps creating a Registration University to match McDonald's Hamburger University) that would imbue a culture of service in your employees. But unless the Registry were so large an agency that the legislature would neither notice nor care about funds spent for this purpose—and it is not that large—you would have a tough time convincing anybody that this was not a wasteful expenditure on a frill project.

If somehow your efforts succeed in making Registry clients happier, you can take vicarious pleasure in it; in the unlikely event a client seeks you out to thank you for those efforts, you can bask in a moment's worth of glory. Your colleague at McDonald's who manages to make customers happier may also derive some vicarious satisfaction from the improvement but in addition he or she will earn more money owing to an increase in sales.

In time it will dawn on you that if you improve service too much, clients will start coming to the Watertown office instead of going to the Boston office. As a result, the lines you succeeded in shortening will become longer again. If you wish to keep complaints down, you will have to spend even more on the Watertown office. But if it was hard to persuade the legislature to do that in the past, it is impossible now. Why should the taxpayer be asked to spend more on Watertown when the Boston office, fully staffed (naturally, no one was laid off when the clients disappeared), has no lines at all? From the legislature's point of view the correct level of expenditure is not that which makes one office better than another but that which produces an equal amount of discontent in all offices.

Finally, you remember that your clients have no choice: The Registry offers a monopoly service. It and only it supplies drivers' licenses. In the long run all that matters is that there are not "too many" complaints to the legislature about service. Unlike McDonald's, the Registry need not fear that its clients will take their business to Burger King or to Wendy's. Perhaps you should just relax.

If this were all there is to public management it would be an activity that quickly and inevitably produces cynicism among its practitioners. But this is not the whole story. For one thing, public agencies differ in the kinds of problems they face. For another, many public managers try hard to do a good job even though they face these difficult constraints.

Discussion Questions

1. Wilson argues that McDonald's and the Department of Motor Vehicles operate differently because of the inherent differences between public and private organizations. Apply his reasoning to other cases, for instance the U.S. Postal Service and Federal Express, or any other area where the government and the private sector compete for business. Think about the goals of the organizations, who controls them, how you distinguish success from failure, and the consequences of failure.
2. What are the advantages and disadvantages of trying to run the government more like a business? How would you define the basic parameters of a "business-like" government (such as, who are the "customers")?

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"A Sharper Focus"

James Lindsay

Prior to September 11, the term "homeland security" was hardly a household word, being mostly the province of policy wonks and the faculty at the U.S. Army War College. Nor was it considered a primary policy area, despite numerous commissions and studies that forecast terrorist attacks against U.S. citizens, and previous instances of terrorism (including the bombing of the World Trade Center in 1993, the 1998 bombings at U.S. embassies in Nairobi, Kenya, and Dar Es Salaam, Tanzania, and the attack on the U.S.S. Cole in October 2000). That changed on September 11. The attacks, among many other things, exposed the disorganization and fragmentation of the government's job of protecting U.S. territory. The job was split among dozens of agencies—from the Department of Defense to the Federal Aviation Administration; the Centers for Disease Control and Prevention to the Immigration and Naturalization Service; the Central Intelligence Agency to the Federal Emergency Management Agency.

Shortly after the attacks, President Bush created the Office of Homeland Security as part of the Executive Office of the President. The OHS mission was to coordinate all government functions related to homeland security. To many, though, the OHS lacked the authority it needed to do the job; the director, Tom Ridge, lacks the power to order cabinet agencies to do anything, and he does not have control over budgets. His influence comes from his ability to cajole and persuade agency officials to do as he asks, and his close relationship with key administration officials (especially the president himself, and the director of the Office of Management and Budget).

These criticisms led President Bush to propose the creation of a new cabinet-level department that would combine twenty-two separate agencies with the goal of promoting homeland security. James Lindsay, a senior fellow at the Brookings Institution, examines some of the problems posed by creating this new department. As this book goes to press, Congress is still debating the proposal. Some Republicans in Congress are concerned about the creation of more big government while Democrats are worried about additional threats to civil liberties. No matter the outcome, the effort to address homeland security by creating a new government department is a good illustration of the broader topic of government reorganization as a tool to tackle major problems. While such efforts can be successful, previous experience indicates that there will be problems along the way. As Lindsay says, "Good organization cannot guarantee security, but bad organization invites disaster."