Control and Coordination in Federal Administration

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DEDICATION

This is dedicated to my father, Steve O. Richardson, Jr., who taught me to value freedom and knowledge. He earned his bachelor’s degree at age 49, thereby encouraging by example my ambition to resume formal education 20 years after I graduated from college.
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ABSTRACT

CONTROL AND COORDINATION IN FEDERAL ADMINISTRATION

Steven O. Richardson PhD
George Mason University, 2009
Dissertation Director: Richard E. Wagner

Improved technology and increased transparency and accountability have made the shortcomings of federal government processes and results more apparent, but they have not helped diagnose or solve the problems commonly attributed to bureaucracy. I submit that this may be due to outdated “machine” models of government that neglect implementation challenges. What if the problem is that we have too many controls? Analyzing the federal government as a complex system leads to new questions and insights that have profound implications for theory and practice of public choice.

Using relationships as a unit of analysis, I construct a graphic model of a hypothetical agency, which I call a Kaleidic Hyperstructure, to demonstrate how rule changes affect behavior of the system. A case study of formation and reorganization of the Department of Homeland Security illustrates how this method of analysis can inform institutional design. I conclude that real control and coordination (i.e., effective policy implementation) will only occur if accountability for results is accompanied by flexibility
to allocate resources – a relaxation of some constraints. Trading control for results works because agents value choice that allows them to use dispersed and emergent knowledge.

Enabling (and requiring) agencies to pay more than lip service to policy can benefit the public not just by more effective administration but by providing feedback on how policies impact program performance and by inducing innovation and adaptation in government.
“It is impossible to understand the history of economic thought if one does not pay attention to the fact that economics as such is a challenge to the conceit of those in power. An economist can never be a favorite of autocrats and demagogues. With them he is always the mischief-maker, and the more they are inwardly convinced that his objections are well-founded, the more they hate him.”

Ludwig von Mises (1996:67)

United States government bureaucracies, due to their size, complexity and influence, have become objects of obsessive ambition for all kinds of politicians and scholars. Most of those engaged in this ongoing battle evidently believe that 1) federal agencies are effective policy instruments and that 2) strict control enhances their effectiveness. I shall argue that neither of these assumptions is valid and – more importantly – identify opportunities to improve government effectiveness through structural reform. My thesis is that hierarchic controls have the cumulative effect of preventing the coordination necessary to efficiently implement policies and improve effectiveness of federal programs.

While the vast majority of literature on federal administration refers to relationships between levels of government (national, state, and local) or between government agencies and non-governmental organizations or firms, the scope of this
study is limited to control and coordination within and between federal agencies. Presumably, this is the simpler case, and it hardly seems likely that the federal government can effectively control and coordinate these other activities if it cannot do so within its more immediate domain.

The unit of analysis for this study is relationships. The moral of the story, if you will, is that they can help or hinder progress at micro and macro levels of the system, depending on participants’ subjective perceptions of their value. I construct a model of the federal hierarchy as a complex network and examine likely inter-organizational propensities to cooperate, given typical motivations and various environmental factors such as budget size, political power, and program performance information. The model enhances understanding of barriers to policy implementation that stem from inattention to incentives.

Constraints on decision-making authority, which are intended to prevent erroneous interpretation or application of policies, have an unintended consequence of paralyzing the bureaucracy – ensuring very inefficient implementation of virtually all policies. Moreover, the same constraints and their implied message regarding politicians’ priorities have a more important negative consequence – destruction of opportunities for significant learning from program-level experience. Too often, it is forgotten that although policies carry legal authority, they are merely theories about which actions will best achieve goals for social welfare. Fundamental problems of public organizations are that outcomes are not subject to direct control and expenditures do not automatically produce intended results. Where this is admitted and, even more rarely, when we have
evidence, politicians are far more likely to blame bureaucrats than to question the policy (unless it can be attributed to the opposing party). Unfortunately, most officials who realize the impotence of their efforts react by attempting to manage more vigorously – creating even more barriers to coordination of knowledge and activities that could otherwise improve performance. Decision-making in such an environment revolves around who holds which cards, not which choice will have a positive effect on public outcomes.

The debate is not academic; it is political – an ongoing power struggle between the Legislative and Executive branches of the federal government. They argue about resource allocation, not outcomes, because spending is the key to realization of every politician’s goals, whether s/he is an elected or appointed official. To Congress, “flexible” means ceding control to the Executive’s agencies, and they react cynically to pleas that it’s necessary to manage for results – like some voters react to their own claims that spending votes are “for the children.” Agency executives, who have direct access to the data on program operations, fret about inability to control outcomes for many established programs. Members of Congress are understandably skeptical that increasing the scope of Executive authority to manage resources will fundamentally transform the interventions. From the legislative perspective, the President has plenty of flexibility already – to organize the agencies and hire talented managers. Why give him the opportunity to redirect funds toward his own favorite constituencies, especially when appropriations supposedly represent passionate negotiation (logrolling) on Capitol Hill?
Rivalry between the branches of government is a familiar subject of debate and forms the basis of most economic models that treat government as an agent of the citizen/taxpayer (Mueller 2003:Chs. 16 & 17). These models correctly identify budgets and power as the spoils of continuous war between politicians and bureaucrats. However, dominance models ignore the qualitative differences – competing interpretations of what constitutes the public good – that serve as public justifications for apparent obstinacy. Majority and minority, legislative and executive, routinely (and hypocritically) accuse their opponents of selfish ambition. It is safe to say that they are all right and wrong to some extent. The battle is clearly worth fighting for agents and the principals they represent. But none of them can credibly claim to represent all the principals and to know what will work, or not. Yet they expend all resources at their disposal to obtain control over the prize – presumably to do a marginally better job than their rival – reducing the resources and political capital available for implementation of whatever policy and management decisions survive. The game is a typical prisoner’s dilemma in that agents’ choices to fight rather than cooperate reduce overall payouts.

Principal/agent models add fuel to the fire by perpetuating a view of government as an ideological battleground. Ideology has its place in policy formulation, but it can lead to bad government when it interferes with execution. In government, everyone is an agent with unique views and knowledge, all of which are valid, prospectively. At some point, though, action is required – implementation of policies that do not have unanimous support. Agents are responsible for helping us confront the possibility that we are wrong. In the process, we avail ourselves of opportunities to improve matters and to learn from
the experience. The system can be used to exercise power, but it can also transmit knowledge; emphasizing instrumental value at the expense of the experimental prolongs factional rivalries that squander resources and paralyze the system. Analysis of political tactics avoids the bigger issue of whether we may be our own worst enemies.

Accountability is not a blame game; it is shared responsibility for seeking the truth. It is time to set aside prejudice and commit to two principles of accountability: 1) Policies deserve to be tested and 2) Bureaucrats deserve to be trusted.

The KH model demonstrates that relationships, not controls, are the key to effective policy implementation. C, the idealized citizen/taxpayer, is the only reasonable candidate for principal. But because it is absurd to suggest that a single set of policy preferences would be meaningful, the model represents citizens by special interests (C1, C2, etc.) that align with distinct agencies and programs.

In addition to oversimplifying a complex system of relationships, principal/agent models skirt the knowledge problems by assumptions that we know what it is the people want, that it can be provided by a government agency, that we know how to do it and that we will know if it’s done or not. Typically, voters are deemed to elect “responsive” officials who strike optimal political bargains on their behalf and keep unelected bureaucrats in line by tying their hands with laws and public hearings. Control of spending by elected officials is presumably critical to ensure productivity because bureaucrats with freedom to choose will waste resources by working less and pursuing policies at odds with the law. The major flaw in this approach is the implicit freezing of knowledge in authorizations and appropriations. Implementation of the law as enacted is
presumed “good.” Unknown details, as well as those admittedly impossible or inconvenient to monitor, are delegated. However, premises regarding cause/effect and resource allocations are treated as conclusions, not testable hypotheses. What emerges from these lines of inquiry are institutional control strategies based on static representations of legislative/executive relationships. Such models fail to provide insight as to how imperfect policies and processes might be improved after being blessed by both houses of Congress.

It should give us pause that after a decade of planning, managing, and reporting on results in accordance with an act of Congress aimed at improving cost-effectiveness of its activities, budgeting and administration practices of the U.S. government haven’t changed in any meaningful way. For better or worse, dependence on existing agencies for implementation and any sophisticated characterization of bureaucrats suggests that allowance for errors of either type (omission or commission) might be worth considering in policy formulation, design of legislation, and oversight of agencies. My Kaleidic Hyperstructure model treats ends and means as variables in a process of implementation. It facilitates analysis of the factors likely to influence an inherently uneven distribution of control and coordination within the hierarchy. And it explains why we may never discover better methods or know if we have really improved outcomes unless implementation is treated by policymakers as a collaborative process vs. execution of a perfect plan.

If we are to make any progress along these lines, it will be incremental. None of our elected or appointed officials will admit to being a proponent of command/control
government and central planning, even if empirical analysis demonstrates that’s what we have. Controls, they will claim, are necessary to protect the “will of the people” as enshrined in democratic legislation and electoral representation from tampering by unelected bureaucrats. It is a “key irony” of bureaucracy in a democratic government that what makes it effective makes it less subject to control and less useful as a source of political power (Lewis 2008:202). Our government has become far too complex for micromanagement and practice has not kept pace with applicable theories. To the extent there is any connection at all between resources and results, detailed appropriations sever the link by freezing the network of programs in place. Measuring the results that can be associated with prescribed activities may provide useful information about appropriations but is worthless to management if they cannot implement alternative strategies. I am not calling for carte blanche; I do hope to show that a little wiggle room can go a long way toward changing incentives and turning results into a driver of activities instead of their byproduct.

Controls that presuppose feasibility and knowledge of policies’ effects act as disincentives to discovery of process improvements and unforeseen impacts. This implies that the potential of every policy to positively impact outcomes can be limited by its own rules. The same rules make it unlikely the information necessary to improve upon the policy will ever be sought. At the scale and pace of U.S. government operations, the opportunity cost of this practice could be huge. Basically, Congress authorizes expenditures for specified purposes according to well-defined rules until another Congress gets around to changing the rules. In the meantime, the President
exhorts his appointed executives to exploit the remaining flexibility to pursue his preferred policies. Usually, this means agency heads (and hence almost all of their top management team) spend most of their time promoting and managing a tiny fraction of their budget. This unfortunate waste of talent and energy occurs because all significant decisions regarding the large programs have already been made by or are reserved for Congress.

My research suggests that this is not likely to change unless Congress shifts its focus from prescription of administrative processes by funding specific activities toward funding portfolios of activities that share higher level objectives. This would allow some discretion by the Executive in its allocation of funds among authorized programs and in managing cross-cutting strategies. The burden would then fall upon agencies to demonstrate how effectively they implemented legislative policy instead of documenting expenditures. It would improve real control because the Executive would have an incentive to work with Congress’ policies instead of around them. Also, it would create a demand for performance information that is irrelevant under the status quo. Performance information, if supplied in a choice environment, can become a currency that agencies use to purchase additional resources and flexibility. It can create “an information-driven language to break down the silos that so often separate the agencies managing government programs” (Kettl 2007:27).

*Federal agencies could be more responsive to policy changes and more effective in achieving performance goals if they were given more flexibility to allocate resources in exchange for greater accountability for results.* I propose to demonstrate this by
modeling the U.S. government as a complex adaptive system and exploring the effects of relaxed hierarchical control coupled with performance-based governance – that is, using feedback and incentives to guide decisions regarding means, many of which may be more effective if they are made locally.

Counter-intuitively, the more complex the system, the more important it becomes to relax constraints, so as to permit utilization of local knowledge in deciding how to pursue given objectives most effectively. Enlightenment is one thing and politics is another; authorities will not voluntarily relinquish power even if they come to realize it is not synonymous with control. There must be a quid pro quo, which may take the form of evidence that policies have been implemented and measures of results that indicate their effects on targeted social problems/opportunities. Such an institutional change is not biased toward any kind of policy and is certainly no guarantee of better government. However, it will improve incentives for agencies to coordinate activities toward policy implementation and to collect performance information that supports resource allocation decisions. Citizens will be better served by a government seeking results and testing various approaches than by the current system that effectively pits the two major branches against one another in a constant battle over control of spending.

Technological advances have dramatically enhanced capacity to share information. However, incentives that direct use of this new technology have not changed, so connections that could improve control and coordination have often acted as constraints. Transaction costs – in this context, resources devoted to making policy or management decisions – have increased with stakeholders’ expectations of more
complete participation. Better decisions may result from enhanced interconnectivity and
greater investments in decision-making, but that is not necessarily the case.
Policymakers already tend to overestimate the extent to which federal government
activities are subject to control and coordination; low-cost technologies tempt them to
add more rules to a system that is already rule-bound. At some point, we must recognize
that all rules are not equally feasible, that they all cost something, and that they have
cumulative effects on the capability of the administrative apparatus to implement policies
in general. Otherwise, taxpayers pay too dearly for services because excessive resources
are consumed in bureaucratic processes. Understanding of the government as a complex
system of semi-autonomous agents will help us distinguish rules likely to enhance control
and coordination from those more likely to lead to isolation or resistance. Consideration
of such factors in legislation and management could focus efforts on activities that
increase outputs and outcomes used to measure performance.

The Government Performance and Results Act of 1993 (GPRA), the Program
Assessment Rating Tool (PART) and the President’s Management Agenda (PMA) are
laudable steps toward results-oriented governance, but they have only taken us halfway.
We have baseline data, but unless Executive managers have incentives and freedom to
make day-to-day strategic decisions, the quality of performance information and real
opportunities to benefit from its use will be very limited. In rather typical fashion, the
Congress and the Bush Administration piled these accountability requirements on top of
hierarchical, process-oriented controls – either not recognizing the incongruence or
ignoring it. Before GPRA, in an environment of missing or ambiguous goals and
measures, strict oversight of means may have been justified. Now that agencies have
developed goals and measures for virtually all programs, continued activity-based
funding defeats the purpose of measuring results.

New Public Management scholars bemoan the lack of attention to performance
data by Congress, limited use of such data by the Administration, and continued limits to
managers’ “freedom to manage.” But their appeals to what might be objectively defined
as good government have not been effective. In my view, this is a systemic problem of
budget authority and organizational structure that calls for a solution merging our
knowledge of politics, behavior, and networks. Above all, however, it is an economic
problem – how a society can design institutions capable of responding to measured
results of policy decisions. I show that accountability for results will not materialize
without ceding some authority to allocate resources at the program level. The resulting
competition could unleash considerable creative energy to great benefit for most citizens.
If this were to become a habit, we may live to see a federal government that is complex,
not chaotic.

The research is organized into six chapters. The first three clarify the issue,
summarize the relevant literature, explain the methodology and describe the Kaleidic
Hyperstructure (KH) model – a graphic analytic device. The fourth chapter employs the
model to illustrate current dysfunctions and hypothetical operation under more
transparent, competitive and flexible rules. Chapter 5 is a case study of the Department
of Homeland Security viewed through the KH lens. Chapter 6 concludes with lessons for
change in U.S. federal agencies.
CHAPTER 1. THE RESEARCH QUESTION

How can U.S. government agencies more effectively implement legislative and executive policies? Clearly, the scope of this study is quite broad; accordingly, the hypothesis is general: Accountability for results can improve the effectiveness of federal programs only if accompanied by greater flexibility to allocate resources. Governments at all levels have made progress in utilizing technology to gather and disseminate information, including data on performance of their own programs. However, accountability is not reporting; it adds understanding and responsibility – for explaining what happened, how experience compares to expectations, and how the new knowledge can be used to inform future decisions.

Planning, measuring and managing for results are distinct and critical components of effective organizations. I will argue that planning is incomplete if institutional effects are not explicitly addressed. I do not mean to suggest that the federal government will become effective if agencies are less constrained. That is a question with at least as many answers as there are citizens (effective at what, and for whom?). I am claiming that we cannot expect to learn whether policies actually work – nor can we expect to improve upon them – unless the agencies responsible for their administration have authority and incentives to implement them in the most efficient and effective manner. Structural reform is necessary but insufficient for effectiveness. In other words, we must attend to
system capability before we can reasonably expect any sort of causal relation between inputs, policies and outcomes. This follows from recognition of the federal government as a network. To be clear, the research question isn’t about ultimate effectiveness which, as explained in the next section, is subjective. Rather, it deals with effectiveness of the network of federal agencies and programs.¹

According to Kickert, Klijn and Koppenjan, failures of government to “steer” society led to experiments in decentralization that represented a retreat of the public sector. The concept of policy networks has emerged as an approach that reconciles limitations of central planning with the loss of coordination associated with autonomous policymaking. The existence of policy networks cannot be denied, so the challenge is to improve our understanding of how they operate and to use that knowledge to improve the quality of interactions (Kickert 1997:1-9, 171-72).

Similarly, this effort takes the existing U.S. system as given – meaning it is the only available starting point.² Questions of network effectiveness are worth exploring independent of whether one agrees with existing policies. It matters whether government works, because otherwise policy decisions will continue being made without evidence to support their feasibility and effectiveness. President Obama declared in his inaugural address, “The question we ask today is not whether our government is too big or too small, but whether it works – whether it helps families find jobs at a decent wage, care they can afford, a retirement that is dignified. Where the answer is yes, we intend to

¹ Provan defines network effectiveness as “attainment of positive network-level outcomes that could not normally be achieved by individual organizational participants acting independently” (2008:230).
² “The uniqueness of the status quo lies in the simple fact of its existence. The rules and institutions of sociolegal order that are in being have an existential reality. No alternative set exists” (Buchanan 1975:78).
move forward. Where the answer is no, programs will end” (Obama 2009). That question will be answered, one way or another. Citizens will be better served if it is an informed decision; improving dynamic operation of the network that implements federal government policies will improve the quantity and quality of relevant information.

What is Effective Government?

It almost goes without saying that effectiveness requires coordination, because our government, like all modern organizations, is highly specialized. While the need is apparent, what many do not appreciate is that “people must be motivated to carry out their parts of the cooperative activity” (Milgrom 1992:25). Even given a reasonable degree of coordination, we encounter additional questions such as whether the policies are effective and how results could be further improved. Coordination is important not just for the sake of efficiently executing political directives, but for testing policy propositions and learning from experience.

A polycentric arrangement that relaxes prescriptive resource allocation and focuses oversight on cost-effectiveness would facilitate programs’ responsiveness and potential for positive impact. For example, suppose Congress passes a bill increasing the minimum wage to help low-skilled workers. Presumably, since this is not entirely new legislation, implementation is straightforward – meaning those agencies responsible for enforcement already have rules and procedures in place. However, other programs are affected. Raising the price of low-skilled labor causes many employers to lay off workers, reduce their benefits or reconsider hiring plans. This increases demand for
public assistance programs such as unemployment benefits and Medicaid, and it is not likely that Congress made specific funding allowances even if they recognized these effects. Unless the social service agencies have flexibility to shift resources between programs and localities, some rationing will occur. By the time funding formula change requests could work their way through the political process, it may no longer matter.

Thus, even when coordination problems are known, structural constraints prevent operation of mechanisms that could mitigate their impact. The budget cycle is too cumbersome to respond to many important performance indicators. Agencies are expected to improve quality of life the populations they serve, despite having their resources tied to obsolete definitions of those populations and their needs. Programs may be reauthorized just once per decade, while participants’ challenges and opportunities change continuously. Unless decision rules shift focus from organizations to results, better information about the interaction of complex policies and programs is unlikely to improve matters. This is because accountability in Congress is highly dispersed – by design. Legislators favor ad hoc controls (asset specificity) that give them lots of power over discrete functions; they avoid broader controls that require sharing power. Agencies and programs are designed strategically to prevent opponents from unraveling or radically altering objectives. Tactics include rigid constraints on mission and decision processes, imposing deadlines, and limiting oversight/enhancing independence.

“[Congress] willingly builds, piece by piece – however grotesque the pieces, however inconsistent with one another – the kind of bureaucracy interest groups incrementally demand in their structural battles. This ‘congressional bureaucracy’ is not supposed to
function as a coherent whole” (Moe 1990:136-37, 140, 142). “[O]rganizational boundaries often mirror the jurisdiction of legislative committees and subcommittees, and sharing power among legislative jurisdictions is a feat of supreme difficulty… That political fragmentation makes it increasingly hard to ensure administrative coordination” (Kettl 2007:13).

Robert Behn explains why, when we all know that networks can be more effective, “stovepipes” persist in government:

Legislators have very specific ideas about what government should do. And, to ensure these tasks get done, they assign each one to a specific, bureaucratic stovepipe. This fixed, formal organizational arrangement provides legislators with the ability to make a specific assignment to a specific unit. And, having made such an assignment, legislators then know whom to ask for an account of progress on the assignment. Finally, if the results are not achieved, the legislators know whom to punish (Behn 2006a).

Congressional oversight focuses on the assignment, which is to spend money as directed – not whether that activity led to the intended outcome. To look beyond the intermediate “result” of spending would be to question the policy decision that was so difficult to achieve and so proudly celebrated when the legislation passed. There are plenty of implementation failures to fill any Congressional committee hearing schedule; why would legislators invite debates over the soundness of their own policy? The research question is intended to call Congress’ bluff. Laws with multiple objectives are passed with relative certainty that some of them will be achieved (such as spending targets) and
a high degree of uncertainty regarding achievement of the noble outcome goals that are presented to voters as primary justification for the legislation. Let’s grant politicians the benefit of the doubt regarding intentions. Still – if they are serious about their own policies – they should be interested in whether their stovepiped system and strategies are achieving stated outcome goals. Inattention to programs’ effectiveness is unacceptable, especially in the Information Age.

It is important to clarify the distinction between efficiency and effectiveness. Put very simply, efficiency is doing things right while effectiveness is doing the right things. There are, of course, tradeoffs between the two. For example, public assistance is usually designed to assist those most in need. Therefore, cost-cutting is perceived as a perverse incentive to serve those who can help themselves at the expense of those supposedly targeted by the program. Furthermore, how do we gauge “right” for either measure? “Efficiency in public expenditures is not a prior fact out there waiting to be discovered, but is an artifact to be worked out…. CBA [cost-benefit analysis] or any alternative requires political, ethical judgment and the key issue is whether these are hidden as technical issues or are explicitly invited political inputs” (Schmid 2004:435-36). The cost of any given function isn’t easily determined because there may be wide discretion in factor/cost assignment and allocation. Definition and measurement of outcomes and benefits is clearly a policy issue.

Legislators and bureaucrats protect and expand their property rights in policy and administration, respectively, by placing every decision in what is perceived as their domain. However, virtually nothing in government can be completely defined by one
perspective or the other. Every policy has implications for administration, and vice-versa. Therefore, it can be difficult if not impossible to separate the two. Conversely, they are not one and the same thing. Policies make value judgments that identify desirable ends; administrators exercise knowledge of processes to supply the means of achieving those ends (provide, of course, they have been granted the necessary resources). Regardless of who makes which decisions, though, in any complex system it is not possible to specify ends and means simultaneously – as Congress increasingly attempts to do. Means come first and are far easier to verify, so they come to dominate authorities’ attention. By default, ends become the dependent variable. Results are hardly sought, however, since they were virtually assumed to follow the prescribed plans.

The question of what the “right things” are is a continuous source of conflict within government. Property rights are fuzzy, there is plenty of room for honest disagreement about specific ends and means in any conceivable public choice, and it is not easy to distinguish decisions motivated by selfish and partisan interests from sincere attempts to promote common welfare. And often, abundant expertise actually hinders the effort: “Too many people, indeed, and especially too many experts, devote their lives to finding the best way of doing something that should not be done at all” (Boulding 1966:10-11).

Clearly, then, effectiveness is subjective. So which outputs and outcomes should be measured? Government has many contextual goals that cannot be summed up by a

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3 This is a fundamental principle of praxeology, which is the study of every kind of human action. The role of the economist is to determine whether means proposed or chosen are suited for given ends, and to answer the question: “[W]here and how must I interfere in order to divert the course of events from the
single measure (Wilson 1989:315-16). For example, the Job Corps measures placement of disadvantaged youth in employment or secondary education, but clearly seeks to prevent delinquency, as well. Another problem is that government institutions are designed to separate values from facts. Traditionally, ethical judgments are policy decisions reserved for legislators or political appointees. Administrators are responsible for producing the outputs that have been determined appropriate by elected officials (Simon 1976:45-60, 66-77).  

At all levels, decision makers must evaluate which among several alternatives will better promote a given policy. This is why bureaucracies are rule-bound; expressing official preferences for every activity is intended to remove doubt and prevent manipulation regarding policy. It will be no small feat to convince politicians that such constraints only guarantee one thing – that the agency will be incapable of efficiently implementing any policy. Equally important is an explicit recognition that we choose actions, not outcomes. Policies are justified by judgments of social welfare and conjectures regarding which strategies will realize outcome goals. Actual progress is an empirical question with two parts: a) Was the policy implemented as directed? and b) Did those activities produce the desired result?

For administrators, to be “effective” is to execute directives of the President and the Congress, who are in turn directly accountable to voters for overall effectiveness – positive impact of policies and programs on social welfare. Agencies are formally way it would go in the absence of my interference in a direction which better suits my wishes” (Mises 1996:3, 21-22).  

4 This is a refrain of the preceding ends/means discussion. It is common knowledge that the line is not as clear as indicated by some theories and most organizational structures. Also, it is not clear where it should be, who should enforce it, and how they should do so.
organized under the Executive but authority to spend is controlled by Legislative appropriations. Agencies exist to implement policies; they serve no other purpose.

Program effectiveness, then, is a function of both policy and administration. Effective implementation of policy is a prerequisite to obtaining information about policy effectiveness because policies can only be tested in an operating context. Quality information about the consequences of fully implemented government policies may lead to better decisions.5

Organizations justify error and promote current activities by adopting vague objectives that enable substitution of actual consequences for original goals. Analysis, on the other hand, seeks to discover error as a means of promoting changes that create knowledge. “Always we must be prepared to learn that we are wrong. For, as Popper tells us, ‘It is through the falsification of our suppositions that we actually get in touch with ‘reality.’ It is the discovery and elimination of our errors [read, policy failures] which alone constitute that ‘positive’ experience which we gain from reality” (Wildavsky 1987:35-36, 57-59). Popper defined science as the “systematic criticism of error,” which Martin Landau says implied that “in the absence of criticism, there is mere change; where there is criticism, there is progress and the solution of problems.” Landau called for scientific management – systematic testing of policies as theories – as an antidote to bureaucratic “trained incapacity to think.” It is insufficient to measure historical performance, he says. Competing policies applied to the same problem areas present more relevant and potentially valuable challenges. “The institutionalization of

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5 Not everyone is interested in improving government programs’ effectiveness – by any measure. Those who are opposed to government intervention may prefer the (less destructive) status quo.
criticism...would permit our stock of knowledge to rise if only because of the insistence that programs be constructed as to permit effective and continuous testing” (Landau 1973b:541-42). The interactive process of discovering and testing new knowledge is also known as catallactics – a Greek term for exchange. “Competition has, therefore, to be understood as a process in which... individuals dedicate resources peering into the fog of ignorance” (Kasper 1998:222-25).

In many cases, even if good data systems and knowledge of program logic are in place, evidence of the impact of new policies and strategies on results will not be available until terms of elected office or appointment have expired. However, to avoid the issue is to invite cynicism and reversal. It is incumbent on policymakers to demand evidence of policy implementation and impact because commitment to measurement boosts credibility. Otherwise, opponents will justifiably conclude that it was just the preference du jour; the bureaucrats will resume doing what they please and successors will righteously replace it with a creation of their own (perhaps just as ill-conceived). A record of achievement, on the other hand, presents a challenge to demonstrate improvement. Even a benchmark has value in forming expectations that may support a minimum level of performance.

Performance measurement can become just another tool for ideologues if we forget that in the political arena, everyone has an agenda – and their perspectives will affect the questions and answers. Key questions about data are “Who wants to know” and “What for?” Some parties are indeed seeking a rational basis for change, but others are on a witch hunt or acting as advocates. Some are concerned about resources, others
about process, output or outcomes. Each case may call for a different measure. It is impossible for program administrators to identify a single set of expectations that define efficiency or effectiveness because some programs are designed to achieve “symbolic” action rather than measurable outcomes. One reason for the reluctance of Congress to accept PART and other GPRA offerings is that they represent executive branch filtering of competing values from enabling legislation and budgets. For example, agencies’ outcome goals may conflict with mandates regarding methods of service delivery and policy implementation that can even specify types of staff involved and which resources should be expended. Performance measurement may have led to another unintended consequence; instead of expanding choices, it has led to a pseudoscientific management because it was implemented by traditional planners, who tend to deal with uncertainty by amplifying the rigor and details of their plans

Kickert et al state the same point in their discussion of evaluating governance networks: “Effectiveness and efficiency used as sole criteria for successful network management may degenerate into instrumentalism. Network interactions are then viewed as an opportunity to avoid or break the resistance of other actors to policy proposals by putting them aside or by mobilizing proponents of the measures under discussion…. Goals, interests, and perceptions of others are considered complications … such an approach is exemplary of the classical hierarchical governing style” (1997:172).

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6 Dietrich Dorner advises a systems analysis approach to complex problem solving – planning only in rough outline form. This is consistent with methods explored in Chapter 3.
Incentives

Effective implementation requires empowering and incenting those closest to the action to use what they know in accord with given policies because most decisions are not made by planners. “Efficient organization takes advantage of the knowledge of local managers and workers by allowing them considerable autonomy in implementing their parts of the plan.” Flexibility is insufficient; incentives affect information, too. “[I]f only part of the costs and benefits of a decision accrue to the party making the decision, then that individual will find it in his or her personal interest to ignore some of these effects, frequently leading to inefficient decisions” (Milgrom 1992:115, 291).

It is not enough to delegate categories of decisions to specific individuals or organizations, because each situation may call for a different set of skills or inputs. Tacit knowledge is a fluid concept, not an assignment of territory. To the extent success of an organization requires learning, it is self-defeating to rigidly define problems and responsibilities. Bureaucrats are notorious not just for defending turf but circumscribing it (e.g., “That’s not my job”). Policymakers encourage territorial behavior by establishing controls in the form of authorizing legislation, admonishing subordinates who pursue new ideas without permission, and expressing indignation when other offices solicit assistance from their staff without a formal request. Consequently, people working under such conditions learn to keep doing things the same old way until instructed otherwise and find themselves disconnected from resources that could help them adapt to new circumstances. Hierarchic structures are ill-suited to innovation because they do not support shifts of authority based on problem requirements. An
alternative vision is a pluralistic, self-governing organizational form called a heterarchy. Cooperation may coexist with conflict and dissension if decentralization of knowledge is a fundamental principle of the institution (Reihlen 1996:6-8). In an environment of shared responsibility, it is crucial to establish processes for impartial resolution of inevitable conflicts. Participants can cope with uncertainty and sacrifice as features of a fair exchange mechanism.

Like efficiency and effectiveness, control and coordination are different but closely related concepts. Assuming the existence of objectives aside from control itself, real control in a complex system requires coordination, which cannot be formally controlled because it requires adjustment to emerging circumstances. On the other hand, coordination implies existence of a shared objective that requires a control mechanism to keep joint efforts on track. Organization charts and titles are insufficient. I will demonstrate that alternative decision rules can help align personal and organizational interaction with outcome goals. Knowledge and incentive challenges are aptly illustrated by George Stigler’s metaphorical bus named Economic Reform: “The bus might not take us to its announced destination because the driver doesn’t know how to get there. Alternatively, it might not take us there because the driver doesn’t want to go there, regardless of the announced destination” (Gwartney 1988:6, 8).

Consider Mancur Olson’s logic of collective action: “[U]nless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interests.” The apparatus of
government assumes behavior that defies customary assumptions of rationality. Patriotism, says Olson, is insufficient to overcome the distinction between public and private goods. Otherwise, nation-states could survive on voluntary contributions instead of taxes. The tendency to stray from common interests is related to group size; public choices are more disconnected from individual concerns at the federal level than in states and localities, and grow worse with the size of the population. Olson’s theory explains what should be clear to any objective observer of democracy in action: Political party organization is based on patronage, not collective goods (1971:2, 13-16, 36, 164-65).

As Gordon Tullock explains in “The Transitional Gains Trap,” dependency of interest groups on government may result not from ongoing transfers, but from capitalization of the benefits when programs are created. His example is New York City’s regulated market for taxi medallions (licenses); owners and drivers earn normal profits, but would suffer heavy losses if entry to the market was not restricted. Under the status quo, consumers pay monopoly prices and there is a large deadweight loss. Compensating medallion owners to obtain political support for deregulation is cost-prohibitive. The only way out of the trap is to abolish all market barriers simultaneously to disperse widely the benefits and costs from gains in efficiency and losses of privilege. Tullock concludes, “It is doubtful that such a change would be truly Pareto optimal, but it might come close. As to its political practicality, I take it I do not have to explain why I think it is low” (1975:671-73, 678). The lesson is that government-sanctioned

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7 The fact that special interests rule the roost does not bother everyone; for some, it’s just another market that is every bit as competitive as capitalism (Wittman 1995). I’m not convinced because citizens are not adequately informed about their share of costs and benefits associated with government activities and they cannot opt out.
monopolies are wasteful and difficult to eliminate, so we should be very careful to avoid creating them.

Earmark reduction, like campaign finance reform, treats symptoms of special interest politics instead of the underlying disease, which is the unchecked power of legislative majorities. Article I, Section 8 of the U.S. Constitution limits Congress’ spending authority to “provide for the common Defence and general Welfare,” but this has been routinely violated because majoritarian democracy leads inevitably to fiscal discrimination. In addition to concentrating benefits and dispersing costs, politicians face incentives to exaggerate the benefits and conceal the costs – for example, by accelerating visible effects and postponing costs and other unpleasant consequences beyond the next election. This causes inefficiency and unnecessary expansion of government (Gwartney 1988:12-13, 23-25).

Hope lies with the presidency, which is not as vulnerable to interest groups and has a stake in organizational effectiveness. “[Presidents] are the only participants who are directly concerned with how the bureaucracy as a whole should be organized…. Presidents want agencies to have discretion, flexibility, and the capacity to take direction.” The executive branch does not, however, operate in harmony. Career civil servants protect their interests in the uncertain political environment by forming alliances with interest groups that transcend election cycles. They also emphasize agency-centered decision-making and monopolize information necessary for effective oversight – thus shielding themselves from the political appointees who are attempting to implement new policies (Moe 1990:141-45).
David Lewis explains that presidents must politicize agencies (infuse them with political appointees) to gain control of policy; the goal is to find loyal people who are qualified for each position. They care about policy outcomes and competence and recognize that appointments extract a cost in terms of performance. His quantitative analysis of historical personnel data reveals patterns of politicization. The most robust finding was that it increased following party change transitions – a time when presidents perceive significant policy disagreements with the bureaucracy. It was lower in agencies with higher levels of professional and technical employees – supporting the proposition that presidents are sensitive to influence on agency performance. And it increased when the same party controlled Congress, due to easier Senate confirmations and less conflict on policy matters in general (2008:27, 58, 139-40).

Real change toward a culture of results-based management of federal programs begins with the budget:

The first step is to turn the budget process on its head, so that it starts with the results we demand and the price we are willing to pay rather than the programs we have and the costs they incur. The second is to build the budget by deciding to buy only those programs that deliver the results we want and leave the rest behind. Then we must… reform how government works on the inside (its

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8 Lewis found empirical support for this by comparing PART results and personnel records. Programs managed by appointees have significantly lower average PART scores than those run by career managers. Most of the variance occurs in the program management and results sections of the assessment. This confirms the justification for the merit system. If PART scores are biased in favor of programs administered by appointees, the indicated negative effects of politicization on performance could be underestimated (2008:177-82). See also Gilmour 2006b.
management systems and bureaucratic rules) to improve its performance on the outside (Osborne 2004:xiii).

Budgeting for outcomes differs from performance-based budgeting (PBB) in the same way that a new recipe for baking a cake differs from changing the way it is decorated. Performance budgets merely enhance traditional agency- and cost-based budgets with performance measures and data. At the federal level, even performance budgets have been difficult to achieve. Agencies have restructured their budgets to improve alignment of resources with programs and performance measures, but appropriators specifically objected to “new recipes” – changes that substituted rather than supplemented traditional information. The message from Capitol Hill is that performance budgeting is fine for the Executive Branch, but they see no need to change their own ways:

In its report on Labor’s fiscal year 2004 appropriations, the House Appropriations Committee urges agencies under its jurisdiction “to manage themselves [emphasis mine] based on performance and outcomes” and to “use outcome and performance measures as the primary management tool for resource allocation and the evaluation of programs and individuals.”

In its fiscal year 2005 report, the Senate Appropriations Committee encouraged Labor “to continue using outcome and performance measures as the primary management tool for resource allocation and the evaluation of programs and individuals,” but required Labor “to submit its fiscal year 2006 congressional

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9 Budgets and management decisions focus on workloads, not outcomes. Consequently, results information serves as window dressing for business as usual, and not surprisingly, its quality is suspect (Gilmour 2006a:185).
budget justifications in the traditional budget structure rather than in a
‘performance’ budget structure.” Additional performance information should be
submitted as a separate appendix in the budget justification (GAO 2005b:77, 81).

Far too often, elected officials and bureaucrats alike operate on assumptions that
are never validated. Decision rules based on presumed knowledge may work for simple
processes but act as barriers in the complex environments in which most federal agencies
operate. In a dynamic world with many other forces at work – some in concert and some
in opposition – managers must understand their operating environment, have reliable
information about key indicators of change and have the ability to adjust to new insights
to be successful. The challenge of institutional reform is to properly understand roles and
to construct a system that provides incentives for each decision-maker to apply tacit
(subjective) knowledge to the benefit of the organization and its constituents.

Ends and Means

Academics and practitioners alike tend to overestimate the availability and
effective communication of knowledge among federal administrators. Essays in James
March’s *Decisions and Organizations* explain that choice in organizations involves far
more ambiguity in preferences, relevance, history, and interpretation than classical theory
would indicate. Understanding policy implementation requires studying the processes
that generate them because policy-making itself leads to implementation problems.
“Policy-makers often ignore, or underestimate considerably, the administrative
requirements of a policy, and thus make policies that assure administrative incapacity.”
Policies are almost never clear because they only survive the political process by satisfying coalitions. “[A]mbiguity allows different groups and individuals to support the same policy for different reasons and with different expectations.…” Consequently, adopted policies tend to be oversold and lead to erosion of support and “failures of implementation.” Many organizations have ill-defined preferences, unclear technology and fluid participation and operate as if they were solutions in search of problems – organized anarchies. Their decisions are not strategic; rather, timing becomes a critical determinant of which issues are addressed, who is involved and what is done. Case studies of organizations’ use of information reveal that much of it is irrelevant or not considered in making decisions even when used to justify them and that decision-makers tend to complain about the lack of information even while ignoring what they have. This is likely pursuit of post-hoc legitimacy – behavior more common in policy-making than engineering, in the public vs. private sector, and at the top of organizations rather than the bottom (March 1988:12-14, 152-59, 323, 409-28).

My analysis will focus on whether the federal government as a complex system facilitates implementation of policy and provides information that can be used to determine whether those policies lead to realization of stated outcome goals. Means (program structures and processes) are objects of policy too, serving as ends in their own right for politicians and many stakeholders. Much of this behavior can be characterized as rent-seeking (Gwartney 1988:22-23). Other significant factors include slightly less self-serving beliefs that James Payne refers to as the presumption of

10 Rationality “haunts the house of public policy” because too often it is applied to means or ends, when it should be understood as the relationship between them (Wildavsky 1987:25).
governmental efficacy and the philanthropic fallacy (ignoring opportunity costs).

“Congress is not a neutral institution in which the pros and cons of federal programs are objectively weighed. It is overwhelmed by the advocates….” Spending demonstrates concern and possibly recognition of needs but doesn’t necessarily alleviate a problem, even if it is connected with a grand mission statement, a large budget and a formidable bureaucracy. One objective of this study is to make this practice transparent. Those in power will be reluctant to admit the ineffectiveness of existing policies unless they are presented with clear, convincing evidence that goals to which they are publicly committed are more likely to be achieved by alternative methods (Payne 1991:3, Chs. 2-3). It should come as no surprise that Congress’ authorization and appropriation of agencies and activities has not made allowances for identification and correction of error – or even exploration of viable options – in terms of resources, structures or processes. Until and unless the system is designed and managed to capture this kind of information, we will never know which means are serving which ends.

Apparently, outcome goals are an afterthought for lawmakers; control is the focal point. As Tim Holden (R-PA) put it, “I strongly believe the local congressman has a better idea of the needs for their communities than some federal employee in Washington or a regional office. If we abandon the practice of earmarking, decisions will be made and millions of dollars spent, by tens of thousands of federal employees who have no accountability to taxpayers, voters, or anyone else” (Shoop 2006). Rational, self-interested stakeholders, like their elected officials, are not concerned with the common weal; they want to get as much as possible for themselves (or minimize their costs).
They are not interested in anything that does not support their position and will quickly shout down anything that threatens it. This is why Rep. Holden speaks for most of his colleagues, as well. Congressmen get pressure from constituents to seek or protect specific targeted spending and other legislation, not to ensure rational or efficient administration.

This illustrates an important fact of life inside the Beltway of Washington, DC. Congress gives the orders. They do not seek, nor do they appreciate the advice of agency officials. Unsolicited suggestion that legislation or appropriations are flawed is seen as insubordination. Executive branch leaders do know their place; they are regularly called to appear before Congressmen to answer for their agencies’ actions or inaction. The legislature is a constraint on their obligation to serve the President by exercising whatever discretion the law allows to implement his policies as they apply to programs in their agencies.

These political appointees, as they are called, also face serious time constraints in that terms of service are tied to the administration of the President who appointed them. They serve “at will,” and in some cases the risk is great that they will not survive for an entire four year term. Career and future employment considerations often prompt early departure, as well, since opportunities seldom wait for the next election. Brief tenure, combined with their charge to aggressively promote their administration’s preferred strategies, provides a strong incentive to focus attention and decisions on immediate opportunities and risks at the expense of long term concerns. It is easy to produce press releases or glossy documents, hold conferences or hearings and hand out grant funds;
reorganizations are only slightly more troublesome. However, none of these efforts address timeless incentives that guide the way programs are managed, and advertising all these good intentions can add to the cost and difficulty of maintaining services.

“Presidents and their appointees cloak politicization efforts in new dramatic programs with fancy titles, in reorganizations nominally intended to improve efficiency, or in plans to cut agency employment through reductions-in-force.” Politicization creates problems for organizational management that transcend issues of appointees’ qualifications. Recruiting and retention of high quality civil servants suffer; so do incentives for incumbent career officials to develop management expertise. Harmful effects on performance also occur due to increased turnover. “[A]lthough ostensibly politicians occasionally add appointments to improve performance, they often conflate competence and policy views or overvalue the short-term benefits of a specific appointee relative to the long-term effect of adding another appointed position. In the United States federal government, increasing the number of appointees hurts performance more often than it helps” (Lewis 2008:140, 143, 146-47).

The sad truth is that we will never know, in most cases, whether increased use of performance information improves outcomes, because under the status quo, politicians and bureaucrats alike face more risk than reward for transparency. Systematic measurement of process or outcomes threatens the security and pride of civil servants, and under no circumstances will they collect information that discredits Administration policy unless they are instructed to do so. Policymakers themselves may lack confidence in their solution, they are unlikely to trust the information, and they may also face a
superior inclined to kill the messenger bearing bad news. So their tendency is to just toe the ideological line and never look back.

Career personnel (those whose jobs are tied to the organization instead of the Administration) resist initiatives that disrupt their work and may not have clear long term benefits, generally by paying lip service to policy directives while attempting to maintain delivery of goods and services as directed by law. They protect their interests in the uncertain political environment by forming alliances with stable supporters – the interest groups (Moe 1990:144-45). For this reason, political appointees often distrust career bureaucrats, and it is not unusual for career staff to feel more loyalty toward their oversight and appropriations committees on Capitol Hill than to Administration officials to whom they report directly. Appropriators’ most eager constituents are often career service employees of the agencies whose programs they fund year after year. The organization chart may indicate they work for the President, but if he and his appointees do not fully appreciate their role and contributions, loyalty will quickly shift to the nobler cause of “the people’s will” as expressed by authorizing legislation and line items in the budget. And for true believers in any program, spending is the objective; results are assumed.

Focusing on inputs, outputs, and processes makes sense if program purposes are activity based (as in a pure transfer such as Social Security). On the other hand, if policies are justified by promise of results, then outcome data are needed. Even if

11 Naturally, this tendency is to some extent a function of individual political affiliation or beliefs – motivations that may have led to their education and employment choices. Indeed, politicization is strongest in agencies with career managers whose policy views differ from the President’s (Lewis 2008:27, 139-40). Also, “red tape” is ever-present but far from constant in its intensity. This is an important subject that will be covered in great detail in subsequent chapters.
lawmakers demonstrate enough interest to provide funding for data collection and analysis, the task is challenging. The policy-administration dichotomy can become a barrier to constructive evaluation. Administrators seek to avoid contaminating good government with politics, but this nullifies the democratic process and presents a conflict of interest. This can be addressed by independent evaluation (Wildavsky 1987:223-26). Aside from the qualitative issue of whether programs have a positive impact is the question of how to benchmark quantitative measures. Shortly after federal agencies’ first annual performance reports under GPRA were published in 2000, the Mercatus Center at George Mason University created a technique for Congressional oversight called Outcome-Based Scrutiny. The method involved grouping programs by outcome goals, analyzing their cost-effectiveness, and reallocating resources based on opportunity cost (Ellig 2000). This is a step toward conditions Kasper and Streit regard as necessary for evolution of institutions (1998:390).

Marginal cost analysis is a fundamental business management tool that – though far more difficult to implement in the public sector – is equally valid for improving effectiveness of government organizations. Famed author Peter Drucker says that each product follows a life cycle in which the nature of its contribution to net revenue of the firm changes. It may begin as a development product, productive specialty, or

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12 This cultural trait is deeply imbedded. The foundation of bureaucratic service is objective discharge of business according to rules applied by experts. This was a significant element in evolution of democratic government from monarchies and feudal societies in which business was highly personal (arbitrary). “Precisely those views which most strongly glorify the ‘creative’ discretion of the official accept, as the ultimate and highest lodestar for his behavior in public administration, the specifically modern and strictly ‘objective’ idea of raison d’état.” Therefore, bureaucratic decisions are always supported by rational connection to “objective” purposes via norms or means/ends analysis (Weber 1978:975-79).

13 Robert Behn’s approach – identification and removal of “binding constraints” – relates this concept to public sector management (Behn 2007).
tomorrow’s breadwinner and become a Cinderella, a repair job, an unjustified specialty, or yesterday’s breadwinner. Many are investments in managerial ego from start to finish. His “incremental analysis” is a tool of anticipation and prevention that compares actual outcomes to expectations. Maximizing opportunities, as measured by the ratio of results to effort, is the principal road to efficiency. This requires focusing resources on significant items, properly characterizing costs and considering effects of decisions on the entire business (Drucker 1964:Ch. 4, 69-70). It is easy to find examples in any agency of programs that fit the product category descriptions above. It is difficult, however, to envision an agency head submitting a budget request that makes an honest appraisal of the entire portfolio. Until and unless executives are judged on measured improvement of outcomes and they are granted authority to match the responsibility, we won’t see genuine prioritization. To encourage Congress and the President to enact just that kind of reform, it will be necessary to demonstrate how ceding discretionary budget authority would enhance their power.

Suppose you are head of the Department of Energy’s Fossil Energy unit, which has an energy security goal pursued largely through Research and Development and Strategic Petroleum Reserve programs. Volatile oil prices suggest opportunities for savings via strategic management of purchases to fill storage sites. A sharp drop in prices

14 Every agency head attempts to demonstrate loyalty to the President, to inflate their perceived authority and to create a legacy by promulgating “initiatives,” pilot programs that promote policies. At the Department of Labor, the G.W. Bush Administration’s Community Based Job Training Grants program – clearly a development product – was funded at about $150 million per year (compared to “breadwinner” Workforce Investment Act Adult and Youth programs at roughly $1 billion each) to support alternatives to traditional workforce agency training services. It adopted the federal job training program common measures to allow comparison to similar programs. Nevertheless, the change in Administration (and therefore policy), not results, will probably determine whether it is regarded as a Cinderella or an unjustified specialty.
may represent an opportunity to accelerate progress toward reserve goals by postponing activities associated with low priority research projects. Conversely, a spike in prices may signal that the government should refrain from competing with consumers and wasting tax dollars on oil purchases; perhaps the marginal research projects get accelerated. Unfortunately, this strategy is not open to you because the programs receive separate appropriations. Congress insists on retaining authority for such decisions even though it cannot effectively make them, and you could. Detailed budgets “hogtie” managers, who learn very quickly that asking for permission to move money is a “heads we win, tails you lose” proposition. Any admission that funds are excessive will be heard loud and clear; the rest of the proposal may not be (Osborne 2004:248-49).

Eric Beinhocker’s research concludes that evolution of strategies will not occur unless initiatives are encouraged, financed and measured at the operating unit level. “One mistake that many companies make is to use the budgeting process to harvest all the slack capacity out of their businesses and put it under centralized corporate control… It is important to push the slack resources down into the business units and give the units responsibility and accountability for creating and funding their portfolios of experiments.” Resource allocations should incorporate the emerging results of new growth initiatives. However, punishing small failures will discourage experimentation and harm adaptation generally (2006:346-47, 359). As New Growth theorist Paul Romer says, “every worker in an organization, from top to bottom, can become a ‘knowledge’ worker if given the opportunity to do so.” Central planning of innovation limits experimentation and knowledge creation (Cortright 2001:28). Finally, resisting the
temptation to control allocation of all resources yields benefits of responsiveness to unforeseen needs, reduced internal friction and capacity to engage in long-range planning (Downs 1994:Ch. XI).

**Cognitive Dissonance**

All we *really* know about our government is who is spending the money. Which of myriad policy objectives are realized in doing so and whether outcomes are improved are questions that are almost never addressed comprehensively.\(^{15}\) While many people inside and outside the Beltway rationally avoid these issues, most citizens would be better served if their elected officials’ decisions were put to the test. Due to uncertainty and complexity of most policy problems, even interest groups are better off when professional bureaucrats are provided a reasonable degree of autonomy to exercise their expert judgment, rather than being subjected to micro-management (Moe 1990:135). Agencies are challenged by poor or contradictory guidance regarding new policies and must reconcile new directives with pre-existing laws and policies. Cumulatively, such rules often amount to suffocating constraints that call into question whether the bureaucracy can even implement policies as directed. A question seldom asked is: What are the most significant consequences, and how do they compare with expectations? Unfortunately, most discussions in Washington focus on power, not the truth (Tullock 1965:193 and North 1990:48-52). Winning the next battle is too important to pause and second-guess the strategy that won the last one.

\(^{15}\) Here comprehensive means consideration of direct and indirect costs and benefits that result from an expenditure.
Politicians like buying things that look good, but they aren’t terribly interested in whether or not they actually work. Policies typically resemble shopping lists and oversight amounts to ensuring the goods were purchased. But what are the goods? Delivery is not tantamount to satisfaction; it may just be the first step toward understanding where the real needs lie. If we imagine an agency/program is represented by a new car, Congress (the purchasing agent) is very careful in choosing the model and color but may keep the keys to make sure the driver (bureaucrat) doesn’t take off on a joy ride. The salesman (interest group) and the driver are happy because nothing can go wrong as long as no one leaves the parking lot. Even competing agents, salesmen and drivers are not too upset, because they are likely to get their turn next year, and their model won’t have to perform, either. The losers in this deal are of course, the passengers (program beneficiaries) who are still sitting in the car and sponsors (taxpayers) who shared their hope of enjoying more than just the new car smell. Maybe the trip will not live up to expectations, but there is only one way to find out: Hand over the keys! The next car, driver, route and destination will be selected with the benefit of vastly greater experience. Everyone except the “lemon” salesman is better off.\textsuperscript{16}

It is true that absent clear objectives and oversight, increasing administrative discretion would merely transfer authority to a less accountable bureaucracy. But in the last decade, all major federal agencies have implemented Congress’ framework for

\textsuperscript{16} This is the proverbial principal/agent problem, with a twist that distinguishes interest groups, beneficiaries and taxpayers. This story also illustrates the “bait and switch” problem of policies that promise outcomes but fund activities assumed (not demonstrated) to deliver them.
accountability, the Government Performance and Results Act (GPRA). Congress has created programs ad hoc, passed a law requiring the Executive to develop goals and strategies for coordinating the efforts post hoc, and hardly looks at the products. Such plans aren’t worth creating and maintaining if there is no room to maneuver, anyway. GPRA plans and reports have become records of predictions and observations – not the tools for testing and refining methods they were designed to be – because there is a short in the feedback loop located in the appropriations process. It may be too much to expect Congress to heed arcane and often suspect performance data analysis. On the other hand, it is unreasonable to expect accountability for performance of agencies that cannot use what they learn about program effectiveness.

Why would Congress even consider granting agencies permission to treat their policies as experiments? Opportunity lies in pairing the comparative advantage of agencies in making marginal allocations with that of legislators in oversight of the results. The partisan see-saw that shifts resources from one favorite program to another on the basis of ideology or pandering would be replaced by administrative defense of decisions on the basis of measurable progress toward achieving long term goals. Congress’ power to punish abuse is not in question; more importantly, it is equally adept at claiming credit. Recent polls indicating public approval ratings of lawmakers in the 30% range suggest the risk may be worth taking. We have the technology to gather data

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17 GPRA requires most agencies to produce strategic plans and annual reports that include performance goals and outcome measures. In 2002, the Bush Administration began comprehensive reviews on a five year cycle using its PART, which relies heavily on data reported pursuant to GPRA. GPRA is more ambitious than its management reform predecessors (PPB, MBO, ZBB, TQM and NPR) because it is more comprehensive and it was codified in law, not executive order. It has had more lasting effects because it has proven more useful for political purposes (Kettl 2005:33-34 and GAO 2005a).
that could be used, for better or worse, to determine whether what politicians intended actually happened. If, for example, fewer tax dollars than expected are actually reaching targeted beneficiaries due to “red tape,” an explanation and proposed solution would be of interest. It is unlikely program supporters would admit not having thought beyond creating the bureaucratic façade.

Are federal agencies equipped to provide valid, useful performance information? Members of Congress claim they do not use data supplied by federal agencies because the information is poor. A cynic would interpret this as a convenient excuse to avoid responsibility. However, it may be a fact that in general, we cannot with any confidence link resource allocation and other policy decisions to measurable results. Evaluating whether expenditures improved outcomes encounters controversial matters such as what costs and what benefits are included in which calculations. This knowledge is not sitting on a shelf. An intelligent basis for defining these terms in the context of the program’s purpose and operating environment, and the capability of collecting valid data and properly analyzing them, cannot be assumed. Unless performance information is linked to resources via market concepts such as unit cost and marginal cost, we may never know whether policies are producing lip service or real results, or whether those results are satisfactory.

Although it would be naïve to expect elected officials to refrain from exercising their power just because they don’t know the consequences, we have substantial evidence of their interest in acquiring that knowledge (see the note above on GPRA and PART). My thesis is that the supply side needs attention – incremental structural transformation
of the executive branch into a reliable information system that communicates policy and provides relevant feedback. Congress may demand results, but unless they do a better job of design and maintenance of the vehicle they purchase to deliver the goods, such demands are either insincere or unreasonable. “Bureaucracy’s greatest strength lies in coordinating complex operations. However, coordination in the twenty-first century raises a host of new problems, and no bureaucracy can completely encompass, manage, or control any problem that really matters.” Reforms have focused on administrative tools, but these only have meaning to the degree they advance political goals. “Public management reform is about strengthening the ability of elected officials to produce results” (Kettl 2005:45, 59, 79). Interaction of management and policy must be considered in design of government institutions. Returning to the new car metaphor, this means that the driver gets the keys but she must make the assigned trip. The agent has to consider the compatibility of car, driver, passengers and destination; avoid the temptation to hop in the back seat and give directions; and must verify safe arrival.

IBM’s Center for the Business of Government joined former Comptroller General of the U.S. David Walker in citing an Imperative for Change:

Public sector organizations are now under ever-increasing pressure for more profound changes to better address growing fiscal pressures, terrorism, and new requirements of contemporary society. A concern for efficiency is being supplanted by problems of governance, strategy, risk management, the ability to adapt to change, collaborative action, and the need to understand the impact of policies on society.… Government organizations need to pick up the pace to
become less hierarchical, process-oriented, stovepiped, and inwardly focused. They will need to become more partnership-based, results-oriented, integrated, and externally focused. “Transformation is about creating the future rather than perfecting the past.” (Abramson 2006:5 – emphasis in original)

The Center identified six trends that are transforming government performance: 1) changing the rules, 2) using performance management, 3) providing competition, choice, and incentives, 4) performing on demand, 5) engaging citizens, and 6) using networks and partnerships. “Providing program managers with more managerial flexibility in combination with holding them accountable for performance (Trend Two) appears to be a powerful incentive for encouraging performance-based management. Additionally, providing managers with such authority gives those who know the most about an agency’s programs the power and flexibility to make those programs work” (2006:1-3).

Institutional norms can be an obstacle or a catalyst to change, depending on congruency. Beinhocker listed “Ten Commandments” of a performing, cooperating and innovating culture that includes behaviors such as work ethic, honesty, trust, reciprocity, teamwork, openness, interest in facts and ability to challenge and be challenged. These norms act as substitutes for rules designed to ensure compliance with prescribed processes. Because they are more organic and self-enforcing, they can lead to higher levels of performance (2006:371-75).

Control and coordination elude politicians and bureaucrats because design of government organizations exhibits cognitive dissonance; policymakers ignore serious implementation issues. Appointees and administrators are expected to control and
coordinate activities of people who are very likely to have other ideas and insufficient incentives to submit to the new order (Ostrom 1989:157-58, Wilson 1989:192, 269, Downs 1994:Ch. XII, and Radin 2006:Ch. 4). Real power may be enhanced by selecting subjects susceptible to control instead of those one would like to control if control problems did not exist (Tullock 2005:391). As Alexis de Tocqueville observed in comparing mid-19th century American self-government with French central government, order in society obeys counterintuitive laws. What appears to be disorganized is highly effective, while apparent perfection in administration is in fact debilitating (Ostrom 1989:83).
CHAPTER 2. BUREAUCRACY AND BEYOND

Public Administration, Public Policy, Sociology, Management and Political Science sources complement the relevant Economics literature. Understanding of social behavior in the bureaucratic hierarchy is essential for constructive analysis of federal agencies as policy instruments. We need to consider existing relationships and predict responses to changed conditions. This chapter will explore the federal government as an institution and summarize advantages and disadvantages of alternative forms of management.

Organized Anarchy

Bureaucratic behavior is an environmental phenomenon that is not limited to certain types of individuals. Rational people inherit and propagate different attitudes and strategies in what we describe as a bureaucracy because their institutional environments create different incentives (Tullock 2005: 279-83, Mises 1969:1-19, and Gwartney 1988:14-16). Without a clear bottom line, officials are free to emphasize activities and information that advances their own interests (Tullock 1965:51, 64-81, 121, Downs 1994:Ch. VII, March 1993:186-88, and Tullock 2005: 290-93,404).\footnote{Downs defined a bureaucrat as anyone whose output is not evaluated in the market.} These behaviors are not unique to government organizations, but they are more pronounced and

Organizational culture, political constraints and turf battles are strong determinants of executive and managerial behavior in federal bureaucracies. Anthony Downs (1994:Chs. XV-XIX) created a profile that influenced design of key components of the KH framework described in Chapter 3:

- Officials seek to simplify decision-making by restricting the number of organizational units and diversity of views involved in any given initiative.
- If a bureau has a strong, autonomous base of support, it will refuse to conform to others’ requests for a change in its behavior.
- All officials tend to oppose changes that reduce the resources under their control or the scope and relative importance of their functions.
- Innovators in large organizations are generally regarded as breeders of trouble.
- Extreme environmental instability or complexity weakens the influence of individual agents, thereby making the bureau itself more autonomous.
- Each bureau is continuously jockeying in policy space to defend or extend its territory.
- Bureaus develop ideologies, which invariably emphasize the benefits and minimize the costs of their activities.

Robert Herbold says the government is ripe for fiefdoms, which reflect a natural human tendency “to isolate themselves from the larger organization, and worry more about defending their turf and protecting the status quo than in moving the organization
forward.” Three basic motives cause fiefdoms: innate need to control data or information that reflects on our work, a desire to be independent and control our own destiny, and a propensity to exaggerate the quality of our work and its importance to our organization. They present an enormous problem because they can significantly decrease effectiveness. “When fiefdoms control key data and present too rosy a picture, they effectively eliminate the sense of urgency needed to generate change and improvement that some of those key measures might suggest” (2004:xi, 3, 30, 33, 41).

Career civil servants are not the only ones interested in creating and maintaining fiefdoms. “[O]ne simply cannot understand bureaucracy, or even explain much of an agency’s organizational behavior, without considering such factors as congressional control, interest-group pressures, and alliances between agency officials and various external actors.” Specialization of public sector agencies has created dense policy environments that become their own causes and create relationship dependencies.19 Procedures become purpose because they can be controlled. Policy issues can be too complex and abstract for myopic legislators who think in terms of expenditures and staff size – and whose committee structure reinforces agency fiefdoms. Informal treaties mark turf (areas of influence) to protect organizations from competition for resources. Personal relationships, not administrative rationality, guide legislative analysis. Congressmen “may give due recognition” to the agency head, but “their most enduring ties are with high-ranking career executives.” Career officials develop and maintain relationships with their subcommittees in large part due to transience of the political

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19 Markets also exhibit increasing interdependence with specialization (Powell 1990:309).

In fact, the allocation and positioning of appointees among federal agencies is a major tool of each Administration’s strategy for obtaining control of the bureaucracy. Managers whose loyalty is suspect are replaced or prevented from sustaining efforts opposed to the President’s policies by other techniques, such as layering (adding appointees above that level), reorganization, and reductions-in-force. The reach of executive power over personnel extends beyond official appointments. “Technically, persons chosen for positions under the merit system are to be chosen outside the influence of politics. In reality, both Congress and the president can strongly influence the hiring of careerists at higher levels in the permanent federal service” (Lewis 2008:30-39, 40).

It may be difficult to determine whether bureaucratic resistance is motivated by policy preference or other concerns. As Donald Warwick explains, what is commonly referred to as aversion to risk is more accurately described as a rational interest in stability.

The life of the Washington bureaucrat is punctuated by a perpetual reshuffling of positions above, below, and around him…. Political appointees come and go. Though his or her term may be short, each new director tries to assert control over an agency by changing it…. Another follows who repeats the process. Consequently the word “reorganization” often connotes a personally inspired, impetuous, dubious, and probably ephemeral reform plan that is best disregarded.
Proposed change is evaluated more on strategic grounds than on its own merits. In an atmosphere of battle, warring bureaucrats find it hard to think about the overall welfare of the agency, much less abstractions such as “the public interest” (1975:43-44, 174).

Relationships within the federal bureaucracy are formed and sustained via recognition of mutual dependency. Elected officials cannot literally control agencies’ activities. All organizations rely on willing obedience of subordinates, which is secured in most cases by discretionary use of power. Real authority is exercised ad hoc and is more likely to involve persuasion and recognized expertise than command. Informal reciprocity norms emerge as a primary means by which officials acquire knowledge and status (Simon 1976:125-28, Blau 1955:224-25, 123-43, and Tullock 2005:295-99). Make no mistake about who wields the real power, though. Congress and the President are not shy about indicating their displeasure with any perceived subversion. Therefore, a great deal of bureaucratic energy is expended on pleasing superiors (Tullock 1965:51, 64-81, 121). Budget requests are carefully designed to benefit key committee members’ districts. And bureaucrats often fight presidential micromanagement by courting Congress, if the circumstances offer that opportunity (Wilson 1989:251, 275).

Nothing is ever settled in government agencies, so executives indulge in endless turf battles. Because they are judged on apparent success, creating and maintaining that impression drives their behavior. Government agencies change what they can to show they are capable of change, and “problems are not so much solved as superseded”

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20 As noted in Chapter 1, officials’ preferences may not be strongly associated with organizational objectives.
(Wildavsky 1987:79, 83). Political appointees soon discover that they face very complex decisions and constraints. Typically, this leads to mutual resentment as the agency head appears to be overly concerned with interests other than the President’s and the White House appears uninterested in supporting the agency head in various fights with Congress and other stakeholders. Presidential behavior is determined by apparent performance on “big issues,” not “improving management at the Labor Department” (Wilson 1989:197-99, 261). Fickle leadership and the dynamic political process virtually assure short time horizons and uncertainty surrounding most decisions, which in turn prompts risk-avoiding behaviors. While the system appears to offer many possibilities for change, in practice there are few degrees of freedom at any level, excepting rhetoric.

Economists are likely to identify transaction costs as the primary systemic cause of bureaucratic inefficiency.\textsuperscript{21} This is generally correct; change is just too difficult. But unless we can define and measure transactions in the context of federal administration and describe how that information could be used to improve management, such an observation is not helpful. Moreover, we have no evidence of significant demand for economizing on government organization (North 1990:Ch.9). Firms, operating under competitive pressures, are more or less constantly open to reorganization, acquisition, divestiture, and revised contractual arrangements, and a vast literature has emerged to apply economic principles to these decisions (Tullock 2005:Ch. 2, Coase 1937:390-98, and Williamson 1996:13, 98). Marginal cost and transaction cost analysis is intuitive for entrepreneurs but they are alien concepts to bureaucrats whose revenues are fixed by

\textsuperscript{21} See discussion of the Coase Theorem in Milgrom (1992:38).
appropriation and activities are prescribed in great detail. If there is no flexibility or incentive to allocate resources, it is irrational to bother with sophisticated unit cost information. For government organizations, decision cost – in a qualitative sense – is more relevant.

Every administrative decision is subject to overrule or amendment by a superior. Therefore, tremendous time and energy are expended in reaching and communicating decisions. Perhaps it is because authority is the primary asset being managed in all but a few U.S. government offices. Guiding subordinates’ activity in a complex environment often involves strategic choices with too little, too much or the wrong kind of information. Managers cope with decision rules that indicate which influences are relevant and how tradeoffs should be evaluated. According to Herbert Simon, study of administration traditionally focused on implementation (the doing), not choosing what is to be done. To organize is to delegate authority to specialists – usually based on criteria for division of labor (e.g., function, clientele or location). However, for any given purpose, different methods may be more effective depending on circumstances. A better approach would be to specify for each individual in an organization the value and factual premises for decisions. Incompleteness of knowledge suggests that there is no unique solution to the organization problem, therefore we should provide general guidance that informs and directs individuals’ decisions toward certain objectives. Motivation of individuals to pursue organizational goals consists of inducements (positive to individual) and contributions (negative to individual); he wants to maximize former and minimize latter. This is achieved by “loose coupling” of goals and constraints facing individuals
who share common higher-level organizational objectives (1976:1-11, 20-37, 79-83, 223, 267-75). In other words, organizations need institutions, which are defined by Douglass North as “humanly devised constraints that shape human interaction.” Their purpose, he says, is to facilitate cooperation. Since individuals’ plans often diverge, institutions can succeed only by adjusting incentives to induce convergent behaviors (North 1990:3-6, 17 and O’Leary 2007).

Organizational change is not optional; in fact, stability and growth depend on it (Blau 1955:248-50). Continued existence of federal agencies, offices and programs is not evidence of stasis; bureaucratic behavior exhibits continuous evolution in response to stimuli in the form of rules, policies and budgets. Why, then, is there a persistent perception from outside that nothing has changed? Because given the political, hierarchical nature of our federal government, increasing complexity of the world predictably results in greater efforts to protect and control the state’s interests – but these activities do not necessarily improve measurable outcomes. Three significant constraints are unique to government bureaucracies: Its members are not residual claimants, managers cannot allocate resources, and the organization cannot choose its goals. Consequently, constraints drive decision making. “Managers have a strong incentive to worry more about constraints than tasks, which means to worry more about processes than outcomes.” The number of contextual goals (desired outcomes that apply in addition to those the organization was created to achieve) and constituents is large, and access (via legislatures and courts) is relatively easy, so potential intervenors have great
power. Centralized authority is needed to resolve frequent conflicts between the numerous goals (Wilson 1989:115,131-33).

Ronald Heiner sees order in the control/coordination paradox: “[P]redictable behavior will evolve only to the extent that uncertainty prevents agents from successfully maximizing.” In other words, we face a tradeoff between rules and optimization. Inability to determine preferred courses of action prompts creation of rules that limit options – including those that might improve outcomes. Benefits of such rules may be retained without foreclosure of opportunities only if competitive selection processes exist to eliminate dysfunctional behaviors (1983:561, 586). A generalization of Heiner’s finding, which is consistent with Hayek’s work on spontaneous order, is that an overall predictability encourages entrepreneurship, while overall uncertainty encourages risk aversion. The source of uncertainty in government is a failure of leadership to focus the bureaucracy on its mission. If bureaucrats are provided a coherent framework of meta-rules, they can fill in the blanks and make adjustments with some confidence; spontaneous order facilitates optimization with respect to the organization’s objectives. On the other hand, if constraints are contradictory or overly prescriptive, they conclude that goal achievement is impossible and indulge in passive aggression (Behn 2005).

Motivation is affected by processes, too; employees are more committed when they have participated in decisions than when they are ordered to perform tasks (Powell 1990:319).
From Hierarchies to Polycentric Networks

Hierarchies supposedly offer maximum control and are ideally suited to enforce the torrent of formal rules that flow from the political process (Weber 1947:337 and Wilson 1989:242). However, there is plenty of evidence that actual control is quite limited (Kasper 1998:145, Tullock 2005:263-69, and Behn 2006b). Anthony Downs’ *Inside Bureaucracy* addressed control problems in large organizations (1994:Chs. XI & XII). Lessons include:

- Coalition Tax – Many activities that have no direct connection to formal organizational goals (or those of the leadership) must be continued to maintain stakeholder support.
- The Laws of Imperfect and Diminishing Control – Fully controlling behavior is impossible; control weakens with growth.
- The Law of Decreasing Coordination – Size also reduces coordination of activities.
- The Law of Counter Control – Increased efforts to control subordinates provoke increased resistance (efforts to evade or counteract such control).
- The Laws of Control Duplication and Expansion – Monitoring often requires yet another organization and usually requires more reporting in greater detail, which increases the need for staff to deal with monitors.
- The Power Shift Law – Conflict between subordinates increases the power of their joint superior, while agreement reduces it.
For a hierarchic organization in which the objective is subdivision of tasks such that they remain controlled from the top, “an overwhelming reduction, amounting to a standstill in the possible rate of production, must arise from the administrative limitations of a system of central direction.” Span of control (number of adjustable relations) is fixed at about five subordinates per supervisor if actions are directed by orders, and this does not change much with the size of the organization. Span of control is much larger in a system of spontaneous order or mutual adjustment. Individuals are capable of adjusting their relations to thousands of others (as in a market). In a spontaneous order, complexity of relatedness (relations per person) is proportionate to membership in the system. Molecular interaction is an example of spontaneous order that appears chaotic but reliably and quickly equilibrates with no outside forces. This suggests coordination of large numbers is best achieved by mutual adjustment of individual units, not by prescription (Polanyi 1951:111-21, 155-56).

What we call “red tape” results from tight definitions of authority and numerous layers of management that force everything up to find a common authority. Careful organization of a decision-making system leads to maximum decentralization and use of market mechanisms. This manages the size of decision problems but not the number. Since it is impossible to control everything, effective management requires establishing priorities and leaving lesser matters to subordinates’ discretion (Simon 1976:28, 292-95). Structural decision rules could permit subordinates to act as proxies for their superiors so direct orders are not necessary for every decision. However, ambitious bureaucrats commonly maximize power instead of control, using the number of subordinates as a
proxy for achievement (instead of performance). Bureaucracies run amok because they are organized in an impractically large hierarchy. Hiring officials tend to choose subordinates with the same cultural background (an “imperial” system), discovering only later that such alliances decay rapidly over time and space. Inevitably, “bureaucratic free enterprise” takes hold – out-of-scope, territorially motivated activity that may even contradict official policy (Tullock 1965:131-36, 165-77).

General guidelines, along with emphasis on judgment skills and motivation, can increase actual control in an environment of rapid change (Kasper 1998:265). Supervisors at every level divide their time into making decisions about what instructions to provide and verifying that they are being followed. Since it is impossible to monitor 100% of subordinates’ activity, they must decide what is worth controlling and what is not – keeping in mind that those at lower levels know more about the activity itself. Two examples from China that recognize diminishing marginal returns of administration are worth noting. The Imperial Chinese had the brightest young officials serve as censors (auditors) who were given broad powers to examine line management and report directly to headquarters. The Hsien compared divisions responsible for the same things using very simple measures – a method that requires willingness to ignore the vast majority of administration issues (Tullock 2005:313-26, 353-60).

Natural behavior of complex systems holds lessons for collective choice mechanisms. Martin Landau describes organizational structures as contrived systems of decision rules deemed necessary to attainment of goals that justified creation of the institution. The U.S. government “is a cognitive program constructed as a solution to a
set of problems. The structures of all designed systems, thus, contain knowledge of cause-effect relations that are directed toward a goal set at one time which at another, a future time, may be quite inappropriate. The problem, therefore, is to blend retained knowledge with acquired knowledge so that the system can operate effectively and reliably.” This idea led to liberal use of the principle of redundancy in design of our Constitution. This (apparently long lost) concept of federalism – independent domains of authority – led to duplication of “virtually every aspect, every feature, every agency and every structure of government” in an effort to create a self-organizing system of checks and balances capable of detecting and correcting error (1973a:181, 188-192).

Vincent Ostrom similarly saw federalism not as a means of delegation but as a compound republic designed to “limit the despotic possibilities of democracy.” The principle of federalism is prior to that of democracy. A key feature of this arrangement is the “fragmentation and overlapping among jurisdictions, with the various jurisdictional boundaries being an emergent feature of openly competitive processes” (Wagner 2005: 184-85).

Thirty years ago, in The Intellectual Crisis in American Public Administration, Vincent Ostrom called for a democratic form of administration that relies on polycentric mechanisms to replace the paradigm of hierarchic public administration that sanctioned ineffective bureaucratic practices. Where Simon’s challenge was to pay more attention to the internal machinery of government, Ostrom’s was to look outside – to how government might engage citizens in implementation as a natural extension of their participation in the democratic electoral process (Ostrom 1989:Ch. 4). Analysis of
feasible alternatives aimed at improving effectiveness in terms of results will require an approach that takes both of these challenges seriously. The key to understanding the potential of polycentric organization and spontaneous order as applied to federal administration is recognition of the federal government itself as a complex order. Any society consists of individuals whose behavior is connected to others’ in an incomplete, impermanent fashion. The same is true of governments. If the “machinery” is subject to limited control and dependent on human motivation and interaction, its operators must become familiar with the nuances of its production functions and factor them into reform of its structures and processes (Wagner 2007:Ch. 4). Moreover, there is fundamental tension between self-governance and central control. “For Ostrom, liberal governance in modern, complex societies can only be accomplished through institutional arrangements that are polycentric. To try to mix hierarchical ordering processes into such a polycentric setting is a recipe for the generation of societal conflict” (Wagner 2005:176).

Growth and increasing complexity of government has rendered hierarchic management obsolete. Scholars and elected officials are recognizing the need for flexible structures and processes:

In the twentieth century, hierarchical government bureaucracy was the predominant organizational model used to deliver public services and fulfill public policy goals. Public managers won acclaim by ordering those under them to accomplish highly routine, albeit professional, tasks with uniformity but without discretion. Today, increasingly complex societies force public officials to develop new models of governance…. Rigid bureaucratic systems that operate
with command-and-control procedures, narrow work restrictions, and inward-looking cultures and operational models are particularly ill-suited to addressing problems that often transcend organizational boundaries (Goldsmith 2004:7). Most governments traditionally have operated a management system for their departments based upon the bureaucratic model. Under this system the department tended to develop over time the mantle of an institution of government with something of a divine right to exist in perpetuity. Therefore, questioning the institution’s performance was fraught with implied recrimination. The original purpose of the organization also was often lost in antiquity and became masked by its expansion into areas of activity that bore little or no relationship to its core business. In other words these institutions had become conglomerates, with all the lack of focus and accountability that often plagues conglomerates.

If there is to be a move towards a results based culture, the structures of accountability and the relationship between the government and its delivery organizations need to change. It is unreasonable to expect organizations and individuals to adopt a culture of accountability based on assessing their performance against the results produced unless they are given a structure that enables them to succeed under this result based accountability regime. Such a system must also produce incentives and rewards that encourage this culture shift towards results accountability (McTigue 2005).
The structure of government limits flexibility and an inflexible network violates its purpose. Value is created by quickly adapting to changing circumstances – a network capability. Flexible networks add or subtract partners or services, broaden or shrink scope, share or manage unexpected successes and failures, and revise performance goals. The recent surge in public-private partnerships is driven by public demand for the same flexibility in governmental organizations that have become the norm in private markets. Focus on public value will lead to a concept of government based on goals and networks instead of programs and agencies; “networked governance” ties incentives to results, not activities. Expectations must be specific enough to focus efforts without specifying detailed procedures for achieving outcomes (Goldsmith 2004:74, 125, 133, 181).

This is, of course, much easier said than done:

Cooperative arrangements are not necessarily easy to sustain, nor do they always entail success…. [C]onvergence of purpose is often difficult to achieve, consistency of effort can be undermined by parochial subunit goals, and middle managers and technical specialties may not share top management’s enthusiasm for cooperation…. Parties may bring hidden agendas to the venture. There is an ever-present threat that one party will capture the lion’s share of the benefits, or defect with the other party’s knowledge and expertise (Powell 1990:318). [A]lthough network organizations generally commit to achieving network-level goals, conflict among network participants is inevitable…. If conflict in networks is not managed properly, the results are predictable: The problem emerges, sides form, positions harden, communication stops, resources are committed, the
conflict goes outside the network, perceptions become distorted, and eventually a sense of crisis emerges (O’Leary 2007:6).

Getting beyond “happy talk” to meaningful collaboration requires skillful “interest-based” negotiation – which is exchange, not compromise, in that support is earned by finding value, not allocating cost. “Focusing on basic human needs, scaled up to the level of the organization, is a key tool. These needs include security, economic well-being, belonging, recognition, and autonomy” (O’Leary 2007:20). These ideas explain in part why control and coordination are both lacking in federal hierarchic networks; they are explicit in the Kaleidic Hyperstructure model described in Chapter 3.

While public sector network governance has been studied for decades, little of the research has found its way into practice, especially within the federal community. 22 This may be due to persistence of the fallacy that the federal government can actually be controlled from the top. Numerous examples of how and why this classic bureaucracy defies steering were presented in the preceding section. Once it is accepted that agencies are de facto autonomous elements of a complex network, commands are recognized as ineffective and decision makers begin to think of incentives for mutually beneficial action. “An essential feature of network management is the assumption that all the actors involved possess a margin of liberty which they will use in the game.” 23

The term “governance” conveys a different vision of government’s role; service delivery is seen as an ongoing interaction of interdependent but autonomous

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22 Agranoff (2007) provides an inside view of public management networks, including a typology and case studies.

23 Erik-Hans Klijn and G.R. Teisman, “Strategies and Games in Networks” (Kickert 1997:105). This could help explain the prevalence of passive aggression in bureaucracies. Facing hard constraints on what to do and how to do it, degrees of freedom remaining are speed and quality.
organizations participating in a self-organizing network. Governance is about “use of institutions and structures of authority and collaboration to allocate resources and to coordinate and control joint action across the network as a whole” (Kickert 1997:xi).

Take social services as an example. Social workers’ clients have multiple needs that are inextricably linked: health, child care, employment, transportation, and education services. The value of each is limited by access to another. Most providers specialize and – because programs are funded by service type and administered by separate agencies, it can be very difficult to coordinate efforts. The chances of duplicate qualification and convenient timing are random unless agencies and their appropriators take an enlightened view that recognizes their programs’ stated goals are best served by coordination with other programs than by controls that serve parochial interests. Since resources are always limited, program partners must agree on protocols for prioritization – and cases are too complex and varied in time and location to cover all contingencies in written guidance. If coordination is to work, control must be relaxed. This is an entirely different process that requires trust within and between organizations to be effective.

Legitimacy is critical to the success of any network. If participants do not perceive interactions and coordinated efforts as legitimate ways of conducting business that offer potential benefits, “the network is likely to exist in name only with little real commitment by participants to network-level goals and outcomes.” External legitimacy can reinforce cohesion within by creating pressure for results (Provan 2008:231, 243).

Networks are particularly well suited for exchange of knowledge, which is not easily measured (Powell 1990:304). Network management is “coordinating strategies of
actors with different goals and preferences with regard to a certain problem or policy measure within an existing network of interorganizational relations.” “Networks develop and exist because of the interdependency between the actors.” However, this is not a static relationship; interdependencies are discovered and altered by interaction. No a priori goals of a single actor can be used to measure policy effectiveness. Management aims to improve and sustain interaction and uniting goals and strategies of the various actors (Kickert 1997: 10-11, 31-33). In other words, programs or agencies agree to coordinate activities based on vague understanding of complementary expertise. If their relationship is managed well, it will continuously redefine goals and processes as they learn in greater detail how to use the leverage. In the social services example introduced above, partners may enter the collaboration with goals such as reducing illness and increasing employment that reflect characteristics they can directly influence. Over time, they may develop an index that captures several dimensions of their clients’ quality of life that they seek to influence jointly.

It is important to recognize, however, that consensus is not required to reach a threshold of agreement that allows for joint action. Network managers achieve this not by deliberately changing perceptions but by encouraging redefinition of the problem situation as an opportunity for improvement. Coordination and the necessary adjustments of ends and means are emergent properties. “Joint interest must be created by means of interaction.” Policy making processes should be evaluated not by a priori goals but by the contribution of the policy result to participants’ subjective goals as

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24 C.J.A.M. Termeer and Joop F.M. Koppenjan, “Managing Perceptions in Networks” (Kickert 1997:86-87)
revised or developed during the process. “Starting from a concrete problem, it is not possible to devise how and in what way the characteristics of the network need to be adapted in order to reach a solution to that problem.” Participants must be open-minded and “able to decide swiftly and skillfully on any institutional changes of course which may be necessary, utilizing the new opportunities which come forward.” Managers of a network of social services, then, would make procedural allowances for referrals based on professional assessments of needs that cannot be satisfied by the intake official’s program or agency. They may find that while applicants for employment greatly outnumber those seeking education, most of them are not employable without further education. The employment agency could pay the education agency what they would have spent on futile efforts to find jobs for these individuals – and get the funds back when they complete the education program.

Three ideal types of approaches to network management can be identified and compared: instrumental, interactive and institutional. Goal-oriented steering fits traditional public administration models but tends to neglect some actors’ goals and therefore frequently fails to sustain commitment to collaboration. The interactive approach, which concentrates on coalitions and strategies, achieves legitimacy but fails to recognize the significant influences of hierarchical relations and autonomy on implementation decisions. Institutional approaches emphasize rules and organizational frameworks; they lead to incremental adaptation of incentive structures and cultures. Synthesis of institutional network management with one of the other two types offers the

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26 J.A. de Bruijn and E.F. ten Heuvelhof, “Instruments for Network Management” (Kickert 1997:133)
greatest potential for success, because it offers a vital element; none are apt to be feasible individually and the first two conflict with one another (Kickert 1997:183-90). The Bush Administration approach was instrumental. The PART recognizes the need for collaboration between governments and other partners at all levels but its assessments did not lead to any significant incentives to share resources. Early indications point to a shift toward interactive management of the federal network by the Obama Administration; time will tell. My study strongly supports the institutional aspect.

Order

Collective behaviors are typically simpler than those of their components, says Yaneer Bar-Yam. However, human civilization is a network capable of exceeding the complexity of any individual’s behavior. Because complexity of a system determines the complexity of challenges it can overcome, we can infer that understanding the limitations of our social networks is critical to improving our ability to cope with an increasingly complex world. Hierarchies limit the complexity of collective behaviors to what an individual can control; decentralization increases the system’s potential complexity and allows it to exceed any individual’s capacity for control or coordination (Bar-Yam 1997:Ch. 9 and 2003). This is a very important concept. If we accept that government is a complex system, we must be selective about the extent to which we attempt to use it as a control device.

27 This is related to the insight of The Calculus of Consent – that the number of individuals involved in a decision is inversely related to the dimensions upon which they will agree.
Hierarchy is common in complex systems because evolution of such systems requires stable intermediate forms (Simon 1962:473). Therefore, hierarchic structures serve a critical function. How can hierarchy limit and foster complexity at the same time? *It facilitates coordination to the extent it delegates control.* Hierarchies are “nearly decomposable” systems in which interaction among subsystems are less frequent than interactions within subsystems. Consequently, component behavior is largely independent (1962:473-74). If instead components were tightly connected to one another, then the structure would not be properly classified as a hierarchy, because there would be no distinguishable boundary between subsystems.

Freedom and scale are positively correlated in complex systems. Components’ independence reduces their impact at the aggregate level because uncoordinated behaviors tend to cancel one another. Coupling behaviors (reducing independence of components) simplifies description of the system (thereby increasing the scale of behavior) because to know one motion is to know all. Complex systems cannot be accurately described at either scale; they exhibit a balance between ordered and random motion. *This implies that macro and micro models are inadequate representations of complex behavior.* “Effective models must build descriptions that account both for the many scales of behavior of a system and the interplay between environmental and system properties. In addition, it is the dynamic behavior patterns of the system that must be the focus of the understanding” (Bar-Yam 1997:Ch. 9 and 2003). For this reason, the unit of

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28 This is the “stovepipe” effect.
29 This type of system is referred to as complete or chaotic in Chapter 3.
analysis for the KH model is the bilateral relationship; analysis focuses on patterns in their subjective valuations.

Imposing order on a complex system is tricky business. Friedrich Hayek explained that complex orders can only be created by spontaneous forces: “Order,” he says, “is a state of affairs in which a multiplicity of elements of various kinds are so related to each other that we may learn from our acquaintances with some spatial or temporal part of the whole to form correct expectations concerning the rest, or at least expectations which have a good chance of being correct.” Order is not perfection – not just because we cannot manage it but because we would be mistaken to think we know what perfection is, and are therefore better off leaving room in our plans for the unknown. If this sounds like the invisible hand, it is no coincidence; Hayek points to Adam Smith’s warning to the “man of system” that men are not pieces on a chessboard. This is not to say that order cannot be designed at all – just that intentionally forgoing attempts to control particulars can actually improve overall order because it extends the scope of influence and predictability of attributes or relations (Hayek 1973:35-42).

30 “The man of system…is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder” (Smith 1982:233-34).

31 This is precisely Heiner’s point (see end of Organized Anarchy section that begins this chapter).
Nicholas Georgescu-Roegen links economic processes to thermodynamics.\textsuperscript{32} Purposive human activity is, like all other natural processes, at its core maintenance of a high state of order (low entropy) by consumption of free energy in the environment to delay irrevocable degradation toward disorder (high entropy). This transformation of free energy (low order) into bound energy (high order) is qualitative; selection of which forms of energy are used, and how, is a subjective economic process (1971:18, 128-29, 191-92, 197, 360-61).

What does all this have to do with government organization? Institutions represent attempts to impose order; the very concept is an admission that people may not otherwise coordinate their activities to achieve the purpose of the institution. All social structures are limited, though, in the extent to which they can anticipate and control behavior, and it is critical to incorporate those limitations in their design. If disorder is natural, order is a continuous battle. What worked yesterday may not work today because natural forces are dismantling the established order. Government is not a dining room set that can be built, arranged, decorated and admired for years to come. It is a system of living human beings who have purposes of their own and who will adapt to their environments to protect and advance those interests. Whether or not lawmakers participate in the process, obsolescent formal orders will be sustained or replaced by informal orders that can better absorb or withstand the prevailing (social) pressures.

\textsuperscript{32} Beinhocker makes a lucid and convincing case that while he was and still is outside the mainstream box, this oversight by classical economists is nothing less than misclassification of the economy as a closed equilibrium system (2006:70-74).
The dissipating force is not regular like a radioactive half-life. Change is inevitable but its source, timing and path cannot be predicted because they are emergent properties. Animals and capitalists understand predation, which is not innately evil but rather a manifestation of life force – consumption of free energy driven by the survival instinct. Most free animals and businessmen experience both sides of this: Darwinian competitions to obtain food on one hand and to avoid becoming food on the other. In more civilized terms, they seek to control their own destiny by staying alert to opportunities and taking calculated risks.

Government organizations, on the other hand, exist on life support; they survive by making constant demands for additional inputs. This is not an indictment of politicians and bureaucrats; it is a design flaw. Coordination is comparing purpose to circumstance and technology in deciding how to use resources in a constant effort to engage in relevant activities. There are numerous right and wrong answers – and they are more likely to be wrong if they are produced by central planning processes.33 “There is a great deal of evidence that almost all organizational structures tend to produce false images in the decision-maker, and that the larger and more authoritarian the organization, the better the chance that its top decision-makers will be operating in purely imaginary worlds” (Boulding 1966:8). The structure itself must allow continuous shifting of relations to channel resources and knowledge toward creating benefits that exceed opportunity costs. If they are truly interested in making government work for citizens, politicians must quit kidding themselves and voters about their ability to optimize design

33 This includes democracy, which is just a roundabout way of planning.
and to control such a complex system. Their time and effort would be more effectively spent providing policy guidance that leaves breathing room for discovery in implementation and management processes. Government agencies might then become capable, self-organizing systems that routinely collect and exchange information to improve outcomes.

Remaining chapters describe an alternative architecture of the federal government that may help us determine what types of rules provide a stable framework for coordinating pursuit of program performance goals, as opposed to rules for process control that treat program performance as residual.
CHAPTER 3. METHODOLOGY AND THE KALEIDIC HYPERSTRUCTURE (KH) MODEL

Preceding chapters explained the research question (improving effectiveness of federal agencies as policy instruments) and described the bureaucratic environment. This one explains derivation of the KH model and its features. The U.S. federal bureaucracy cannot operate mechanically because its machinery and objectives are social. It can and must, however, be a reliable feedback mechanism or information system. Ideally, it would complement the glacial political process’ meta-rules by self-organization – adapting via decision rules that govern responsiveness at the level of bilateral relationships. Analysis will proceed with an attempt to translate this into recognizable forms of current organizational structure and behavior, and make meaningful comparisons of the status quo to feasible alternatives.

Ideal Types and Complex Geometry

Sociological and economic ideas expressed by Walter Eucken and Max Weber in the middle of the 20th century are fundamental to my method. Eucken viewed the challenge of grasping economic reality in a general theoretical context as the “second main problem of economics,” which he dubbed the Great Antinomy. We cannot understand history without theory, but of course, theory alone is not sufficient. Therefore, the economist’s task is to define “pure forms” (ideal types) that can be applied

The KH model is a framework for understanding institutional effects on performance of the complex federal system, given our knowledge of bureaucratic behavior as discussed in Chapter 2. The model serves the purpose of testing propositions regarding new rules and information by defining agents and their relationships under the status quo using a limited number of groups or types of each. We know that all people are not alike, but we can surmise that most people in a specific power relationship with certain constraints will tend to make similar choices.

Temporal order must be considered; otherwise, there is no logical cause-and-effect that serves to interpret economic history (Eucken 1950:27-28 and Hayek 1948:67-74). Time is factored into the KH model by treating new rules (policies) as inputs to the process, not instantaneous changes of state. New ideas can proceed quickly, slowly or not at all, depending on their substance, presentation and the context of relationships between decision makers and other stakeholders. Unlike in the military, where orders are clear and court martial awaits the disobedient soldier, in most agencies there are incentives and opportunities to delay action until the initiative is forgotten or abandoned. If relationships are distant or hostile, there is little exchange and extraordinary distortion

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34 Carl Menger considered discovery of causal connections and the laws of their operation the first problem of economics (Menger 1976:56). Eucken’s version of the first problem was interdependence, or what controls the division of labor in production of goods and services (Eucken 1950:18-22).

35 Valuations described at the end of this chapter rely heavily on sympathy for others’ situations (Smith 1982:12).
of information. Consequently, the simplest activity can become very time-consuming, trust deteriorates further and errors are compounded as (hidden) agendas multiply. Signature of a bill or executive order may represent success of a long and difficult political process, but it is nearer the beginning than the end of a bona fide policy change process. Even under ideal circumstances with no significant conflicts, implementation is not easy, analysis is even more difficult, and it may take years to obtain evidence of the new strategy’s impact.

Moreover, the default outcome is failure (to improve program effectiveness). In the preceding chapter, the federal government was characterized as a living system subject to entropy laws. Time is ordinal, not cardinal, in the real world; it flows in one direction and possibilities at one point are not duplicated at another (Georgescu-Roegen 1971:135-40). Existing processes, like common law, have stood the test of time, while feasibility and value of new strategies and rules remains to be seen. Increased funding is always welcome, but cuts or ambitious reforms travel a very rocky road. Thanks to the fiscal calendar and the democratic process, bureaucrats can effectively veto almost any measure by simply dragging their feet or raising unforeseen obstacles and conflicts. Time thereby pressures policymakers to win over and empower career civil servants to coordinate new rules with the old. This helps explain an apparent preference of presidents and Congress for funding stand-alone initiatives that create new positions, authority and accountability mechanisms instead of redirecting existing programs.

Analysis of institutions as systems of rules requires careful attention to historical context. Rules are not changed or introduced without affecting (and being affected by)
existing rules that may complement or contradict the new. Elinor Ostrom refers to this as the configurational (non-separable) character of rules. Theorists should specify a set of rules that operate on at least two levels, one that recognizes endogenous rulemaking and another that deals with choice within an established framework. Under this approach, comparative statics includes specification of rules that “condition the relationships produced by a change in any particular rule” (Ostrom 1986). The hierarchy and the budget process exemplify such constraints in the KH analysis.

The KH framework does not assume equilibrium, nor is it supportive of neoclassical economic theoretical concepts of perfect information, competition, and homogeneous agents. Instead, it follows the evolutionary view of a world in which heterogeneous agents “adapt within an ‘ecology’ they together create.” The result – in stark contrast to equilibrium – is “perpetual novelty” (Arthur 2005:3-4). Comparative static analysis implies direction of change from an assumed initial condition, and in no way implies stability of either state. The KH model of man applies methodological individualism – the axiom that all decisions are choices of individuals, not organizations or processes. In sociological work, says Max Weber, “collectivities must be treated as solely the resultants and modes of organization of the particular acts of individual persons, since these alone can be treated as agents in a course of subjectively

36 At the height of the neoclassical era, Nicholas Kaldor claimed that general equilibrium theory had become “a major obstacle to development of economics as a science” (1972:1237 – emphasis in original).
37 Thorstein Veblen called for evolutionary economics as a theory that includes development of human nature. While economists may argue where to draw the line between behavior and nature, it is worth noting that over a century later, models that incorporate adaptation are still rare (1898:394). Models of man in the new field of complexity economics portray humans as “inductively rational pattern-recognizers who are able to make decisions in ambiguous and fast-changing environments and to learn over time.” We are not purely selfish or altruistic and certainly not perfect in any sense (Beinhocker 2006:139 – emphasis in original).
understandable action.” This is no more a bias toward individualistic values than the rationality assumption; even a socialistic economy emerges from the preferences of its individual members. Democratic and totalitarian systems feature different decision-making processes, but in both cases authority is vested in individuals. Cultural influence is real and powerful, but it is created and changed one person at a time (Weber 1947: 101, 107).

In addition, people are not equally informed or motivated. The contrast with rational choice concepts of a representative agent, *homo economicus*, is clear. March and Simon said that dysfunctions of bureaucracy cannot be adequately analyzed using “machine” models of human behavior that ignore the wide range of roles performed and how they are coordinated (1993:101).\(^{38}\) Rational choice theory fails to capture the distinct and significant political influences on public bureaucrats’ behavior. Markets are not an option for the services most governmental organizations provide, and there are few incentives for decision-makers to seek more efficient arrangements (Moe 1990:116-19). Central planning tends to produce arbitrary choices because without markets for achievement, there are no consistent and objective indicators of which opportunities are greatest (Eucken 1950:285-90 and Mises 1969:20-49).

This orientation leads directly to the aforementioned technique of ideal types. It also leads naturally to the Bloomington School analytic method of examining individuals’ incentive structures, knowledge and information within different decision contexts (Boettke 2005:147-52). Ideal types in the KH are organizations such as

\(^{38}\) See also Pascale 2000:12-14.
congressional committees and federal agencies. Whereas relationships are structured by contracts or organization charts, personal interactions determine the nature of control and coordination processes. This implies that subjective valuations of those relationships are largely determined by the organizations’ leaders. An exception is made for citizen groups. Dissection of their operations is beyond the scope of this study, so their relationships are characterized more generally; valuations represent average sentiments of numerous groups. House and Senate appropriations committee chairmen are assumed to capture their colleagues’ major concerns in their bills and reports.

The KH framework facilitates study of the evolution of rules – evolutionary economics. As Kurt Dopfer explains, evolutionary economics employs a methodology of instrumental realism, which replaces neoclassical economic theory’s exclusive focus on man’s left-brain analytical ability (efficiency) with a model of man that recognizes his mental division of labor and the critical role of right-brain perception of relevance (efficacy). Coordination is restructuring of complementary relations in the macro-domain. In the federal government, this is manifested by shifts in an agency or program’s posture toward an internal or external peer, to a higher level organization, or toward Congress or a citizen group. Rule origination disturbs the prevailing relations, prompting de-coordination, which is followed by re-coordination in the adoption phase.

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39 “Evolutionary economics is a nascent analytical framework for analysis of the economic system as an open, complex and evolving system. It is a theoretical hybrid of evolutionary theory, complex systems theory, self-organization theory and agent-based computational theory, and a methodological fusion of Austrian, Behavioural, Institutional, Post-Keynesian and Schumpeterian economics.... An economy is a complex system of distributed knowledge that transforms itself from within. The reality of an economic system, from the evolutionary perspective, stems from the reality of knowledge, or rules, and their transformations. The economic system is a complex and emergent rule-system. Economic evolution, it follows, is a complex and emergent rule-process” (Dopfer and Potts 2004:195, 198).

40 Institutional economics also conceives of the economy as a complex system (Kasper 1998:35).
of the trajectory toward retention of the new rule(s). This takes place on deep and surface structures, the first corresponding to rules (what and how) and the second to populations (who) (2005:22-25, 47-49). In the KH framework, the rules are criteria for link values (subjective assessments of bilateral relationships) and populations are nodes (organizations). Each scenario represents a new rule that changes the trajectory of relations.

Dopfer’s left and right brain models of man correspond to Georgescu-Roegen’s arithmomorphic and dialectical concepts. The former are discretely distinct and formulaic – readily manipulated and scaled for purposes of targeting improved efficiency. But this is merely increasing outputs and decreasing inputs. According to Georgescu-Roegen, the real world order features overlapping relationships that are sorted indeterminately (1971:44-45, 59). Following the dialectic (right brain) view, effectiveness is defined for the purpose of this study (and consistent with the discussion in Chapter 1) as a complex function of purpose and methods that has no unique solution. It can only be judged relative to subjective expectations, alternatives, and values in a real context. In the KH model, effectiveness of the system as a vehicle for implementation of policies varies with agents’ perceptions of whether cooperating with others is effective for their own purposes – which include but are not limited to those of policymakers.

The KH borrows Jason Potts’ application of complex systems theory to economics by mapping the federal government as a topographical hyperstructure. Connective geometry – relationships between elements – is the focal point. Complex

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41 See also Dopfer, Foster and Potts 2004.
geometry is particularly suitable for this exercise because its mathematic science is consistent with observations of scholars in Chapter 2 that system stability depends on flexibility. Complete systems – those in which all elements are firmly connected – are chaotic because the slightest perturbation is transmitted system-wide. Hierarchic constraints create such structures. In the KH scenarios, overzealous controls lead to resistance and wasteful conflict that inhibits productive activity. Well-intended efforts to improve efficiency and accountability for results can backfire if organizations are mistakenly treated like machines. For example, the Planning Programming Budgeting Systems (PPBS) of 1960s Department of Defense management fame was one gigantic simultaneous equation attempting to compare cost and effectiveness of all policies aimed at a common objective. It linked programs so tightly that change anywhere meant change everywhere, raising its cost and thereby making change impossible. Its major flaw was that it ignored organizations and incentives (Wildavsky 1987:32-34).

Complex systems consist of elements that exhibit varied degrees of autonomy and interdependence in relation to other elements and over time. They are adaptive – relatively fluid in absorbing shocks and capable of dynamic growth by changing the number and nature of connections between elements (Potts 2000:62-64, 68-70). In the Relaxed KH scenario of Chapter 4, increased agency head discretion initially reinforces preferences but over time, competitive incentives lead to a more transparent and dynamic interaction.

Stuart Kauffman offers valuable insight for understanding complex system behavior. The bliss point for a self-organizing system lies on the boundary of order and
chaos, where some connections provide access to optima and others don’t get in the way. His NK model (parts N and interactions K) describes “fitness landscapes” that are smooth (ordered) or rugged (chaotic). “Complexity catastrophe” results as K increases:

As systems with many parts increase both the number of those parts and the richness of interactions among the parts, it is typical that the number of conflicting design constraints among the parts increases rapidly. Those conflicting constraints imply that optimization can attain only ever poorer compromises. No matter how strong selection may be, adaptive processes cannot climb higher peaks than afforded by the fitness landscape (Kauffman 1993:54)

In other words, well-connected is not the same as highly connected (large K) because some ties bind participants in spider’s web fashion. The catastrophe, Kauffman says, may be avoided by restricting K as N increases (Kauffman 1993:xv, 37, 40, 67). Eric Beinhocker says the catastrophe explains why bureaucracy seems to grow “with the tenacity of weeds.” “[N]etwork growth creates interdependencies, interdependencies create conflicting constraints, and conflicting constraints create slow decision making and ultimately, bureaucratic gridlock.” Kauffman’s solution suggests that hierarchy is helpful in reducing the density of connections. Unfortunately, it brings a host of information problems with it. Increasing autonomy of units within the hierarchy is a compromise that works for many large organizations (Beinhocker 2006:152-56).  

The catastrophe can also be described as becoming stranded on a local optimum. Agents stay put because in order to reach a higher peak, they must first descend –

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42 See also references to Bar-Yam and Simon at the beginning of the section on Order in Chapter 2.
something they don’t elect unless driven to do so by internal or external disturbance. Losses may be temporary, but there is no guarantee of success and greater effort is required, so it’s a stressful journey. Moreover, the path is not linear, unknowns are a certainty, and movement itself alters the landscape, like “walking on a trampoline.”

Living systems exhibit self-organization, which emerges in human organizations managed via the discipline of “relentless discomfort” or intentional disturbance – not direction. For example, in the natural world, reproduction processes perpetuate winning formulas by diversification – which comes at the cost of dilution. In the business world, firms weigh the costs of disrupting operations with new hires against the benefits of the energy and new ideas they bring to the organization. Self-organizing potential is enhanced by devolving power to the nodes, establishing rich connections to form networks, and enriching the value of those networks with information that sparks further evolution. Connections are more valuable when they include simple routines and protocols that cement strong relationships. Rules should find the right balance between discipline and freedom (Pascale 2000:5-6, 30, 102-06, 130, 145, 258).

Vision is a necessary but insufficient driver of change in a complex system. “Higher peaks” must be within sight and accessible. Consider the nature of political decision-making, which is a process of negotiation, not optimization of a simple production function. How often do we hear of the “art of the possible”? As Buchanan and Tullock make abundantly clear in *The Calculus of Consent*, full participation in decision making is a legitimate value, but it can be costly.⁴³ Network voids represent

⁴³ See also Provan 2008:242.
opportunities: “In an ecosystem or economic system, the very interactions and couplings among the organisms or among the goods and services create the conditions and niches into which new organisms, goods, or services can integrate. The web governs its own possibilities of transformation” (Kauffman 1993:370). Ronald Burt’s theory of structural holes for analyzing social networks in terms of opportunity cost develops similar ideas. He suggests dense networks are redundant; they’re inefficient and they limit exposure to diverse information. Agents best positioned for success are structurally autonomous players who are closely connected themselves but whose contacts are not connected to one another. These “holes” represent opportunities for the structurally autonomous to act as a broker. Constrained players strategically shift resources toward relationships that improve their bargaining position – essentially changing the social structure (Burt 1992:17-23, 44-45, 230-37). This is evident in the disproportionate investment of the KH model’s highly constrained program managers (M) in relations with citizen groups (C). Moreover, implementing significant change in any organization usually obtains room to maneuver only by identifying and removing ties that bind:

All organizations have some unnecessary interdependencies that are the product of history instead of the current reality. Sales can’t do something without manufacturing’s approval because of a crisis that occurred in 1954, which led to that policy. Cleaning up historical artifacts does create an even longer change agenda, which an exhausted organization will not like. But the purging of unnecessary inter-connections can ultimately make a transformation much easier (Kotter 1996:142).
Radical Subjectivism and Creative Destruction

The U.S. federal government has plenty of information that may or may not be useful. However, “Information does not have to be processed just because it is there” (Simon 1976:282). Loasby explains the difference between information and knowledge by reference to the cognitive process and the critical role of systems:

[A]ny piece of information gains significance from its connections and…many different patterns of connection are possible. Thus, before we can make deductions from information we must impose some order on it; and this we do all the time, usually without thinking about what we are doing…. But there are many ways of organising and closing our models, and other people who receive the same information may order it in different ways, and so may rationally take different decisions (1999:148).

Accordingly, knowledge in this context is defined as a subjective technology of which means are most profitably employed for unique ends. Simultaneous execution of myriad unique plans leads to conflict; this is the real coordination problem, made even more complex and difficult by virtue of the fact that we are not choosing among known options but fishing in uncharted waters. There are no “correct” answers. Loasby quotes Karl Popper, who appears to echo Schumpeter’s praise of the messy evolutionary process: “Orthodoxy is the death of knowledge, since the growth of knowledge depends entirely on the existence of disagreement” (Loasby 1999:27).
Knowledge is not just imperfect; it is incomplete and perishable (Shackle 1992:25-27 and Drucker 1964:Ch.7). G.L.S. Shackle’s “radical subjectivism” accounts for the emergence of exchange from conflict and demonstrates that time is the ultimate choice constraint.\footnote{See discussion of entropy in Chapter 2. As mentioned earlier, the implication for KH analysis is that time is on the side of bureaucrats who resist “unfriendly” leadership by passive aggression.} Truth, he says, is plural because participants do not have identical goals or even orientations (Shackle 1992:71).\footnote{“The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus…how to secure the best use of resources known to any of the members of the society, for ends whose relative importance only these individuals know” (Hayek 1948:77-78).} Shackle captures the limitations of knowledge and the essence of choice in a single powerful statement: “Time is a denial of the omnipotence of reason” (1992:27). Rarely do we have the time, information or capability to optimize; instead, we “satisfice” – select a satisfactory alternative – that reflects priorities, experience, and opportunity costs (including time) in the real choice context (March 1993:4, 16-17, 162). What worked yesterday may not work today.\footnote{The world doesn’t wait for Congress to reach agreement on a new law. Micromanagement at the highest levels of government is evidence of ignorance/neglect of opportunity costs. Little is known about the potential of alternatives forgone or the social risk-adjusted net benefit of multi-layered approvals. In The Calculus of Consent, James Buchanan and Gordon Tullock demonstrated that collective activity is best organized at the smallest unit consistent with the extent of the targeted externality (1965:112).} If the goal is A, technology X may apply; if the goal is B, perhaps Y is recommended. Uncertainty of which method works best is quickly compounded if there are multiple goals!

Some details of implementation are “known unknowns” (specified variables) that can be implicitly or explicitly delegated to administration. In addition are the “unknown unknowns” that are not yet recognized. For any given policy change, a number of
conflicts will be identified after the law, order or rule is effective. Aside from the legal questions, there are always significant yet unforeseen process adjustments and consequences that raise the cost of implementation and may even call the policy decision into question. Objective analysis, then, cannot determine the correct choice. Analysis is of limited value:

With some kinds of projects there is fundamental uncertainty and it is not possible to even name the categories of possible effect let alone their probability. Perhaps the implication of all of this is for management and monitoring of whatever projects get implemented, rather than worrying about which project to build. In an uncertain world, flexibility is a virtue. Designing into the project an ability to adjust as the future unfolds may be more valuable than a formal process for comparing projects of fixed dimensions (Schmid 2004:431).

Decisional processes are more important than decisions; accuracy often comes at great cost in duplication and communication of decisions. Therefore, efficient decision-making processes feature decentralization (Simon 1976:235-37).

Simon applies theoretical limits of knowledge in his principle of bounded rationality, which is manifested as “decision premises” that aid choice by defining roles, and Hayek observes that abstraction is man’s “adaptation to his ignorance of most of the particular facts of his surroundings” (Simon 1957:198-201 and Hayek 1973:30). Similarly, Loasby redefined the economic coordination problem as one of cognition:

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47 This is consistent with Nicholas Georgescu-Roegen’s dialectical order mentioned earlier in this chapter.
The co-ordination of economic activities is not simply a derived demand resulting from a rational choice of specialization in order to gain access to the well-specified benefits of a superior production function; it is a derived demand resulting from the attempt to create a superior system for generating new knowledge, the content of which, and therefore the benefits of which, cannot be known before it has been discovered (Loasby 1991:11).

People deal with uncertainty by, often intuitively as opposed to logically, creating scenario plans that merge ranges of capabilities with ranges of conjectures (Loasby 1999:128).

In light of this expert advice, the more detailed a program design or rule, the more likely it will be in error. Politicians who appreciate what they don’t know would spend less effort engineering bureaucratic processes and more clarifying objectives. Unfortunately, as discussed in the Ends and Means section of Chapter 1, legislatures find goal ambiguity necessary to achieve majority support. Consensus on goals is not realistic; as discussed in Chapter 2, network management methods can accommodate diversity as well as dynamic evolution of goals. Micromanagement, however, is a serious problem for those concerned with the capability of the federal system to adapt to complex demands. Therefore – as I explain in Chapter 4, the focus of policy needs to shift from spending constraints to targeted outcomes. For example, many federal grant programs supposedly chartered to manage nation wide services have little leverage to do so because Congress provides formulas that dictate funding allocation among the states. It should be
possible to exchange flexibility in the formulas while increasing oversight of the trend in measured results.

I must credit Shackle with the KH moniker; he suggests a “kaleidic approach” to science that offers a “rich manifold of rivalry and indeterminism” (1992:77). Since human beings possess mutually inconsistent plans, control and coordination will always be imperfect. The humility that follows from this admission can have a profound effect on our understanding of federal administration. Instead of being surprised by resistance, we should expect it. The KH framework reflects this vision in various agents’ perspectives within a meaningful temporal context – the budget cycle. Agencies, programs and their relationships may seem to be fixed structural components, but they are not. This is because means as well as ends are subjective and in continuous flux.  

The failing of management information systems is their focus on objectives and data. “Ends and means are chosen simultaneously,” says Aaron Wildavsky. Too often, policymakers and administrators assume compatibility of interests, when they should recognize inherent conflicts and concentrate on mechanisms that will make cooperation worthwhile for the people concerned (1987:27, 30-31). Thus, the KH model focuses on subjective connection values that help distinguish real from imaginary re-engineering. Ideal types with various attributes and unique perspectives will react differently to the same rule changes.

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48 “We cannot accept want-satisfaction as a final criterion of value because we do not in fact regard our wants as final; instead of resting in the view that there is no disputing about tastes, we dispute about them more than anything else; our most difficult problem in valuation is the evaluation of our wants themselves and our most troublesome want is the desire for wants of the ‘right’ kind” (Knight 1923:580).

49 Chapter 5 presents a case study of the latter. Reorganizations are common but most fail because resource allocations, incentives and task definitions are virtually unaffected (Wilson 1989:263-65). Shuffling an organization chart may create more problems than it solves.
Joseph Schumpeter’s famous “creative destruction” concept also highlighted competition instead of cooperation. The major insight of his *Theory of Economic Development* is that economies feature spontaneous and discontinuous change (1934:58-64). Why doesn’t competition within government produce net gains as we observe in markets? Modern democratic politics is very competitive, but it is a zero sum game at best. Fiefdoms monopolize vast areas of services and most policies transfer wealth instead of creating it. Not surprisingly, this environment encourages destructive rent-seeking behavior. Unhealthy competition is inevitable when the system is all but closed to innovation. Competitive markets, which by contrast feature free entry and exit, tend to generate new knowledge and wealth and exhibit spontaneous order toward that end.

Participants’ choices to cooperate or fight (both elements of competition) have consequences, and ultimately the market favors those adding the most to aggregate wealth. We can induce healthy competition in government by encouraging innovation, entry and exit between programs and agencies with related goals. As the hypothetical scenarios in Chapter 4 will illustrate, this cannot be done with performance information alone; there must be budgetary consequences for success and failure to improve outcomes.

Management guru Peter Drucker echoed Schumpeter’s view; prioritization, he says, requires abandonment of the old and unrewarding as a prerequisite to successful pursuit of the new and promising. The systems approach likewise appears to earn his favor: “Innovation is not invention; innovators focus on performance, and their skill is to
see a system where others see unrelated, separate elements” (1964:Ch. 9). These ideas are reflected in KH agents’ criteria for valuation of relationships based on incentives.

Political and market forces are different, but at the level of individual choice, motivations are very similar.\(^{50}\) Decisions, including those to cooperate or compete, says John Boyd, are driven by an instinctive desire to improve our capacity for independent action, which he calls a “dialectic engine.” The mental process is twofold – deductive analysis of one model of observations (destruction), followed by inductive synthesis of the same observations into an alternative model (creation) (Boyd 1976). If innovation is instinctive, the task of creating order is vastly simplified; all that is needed is an environment that allows inhabitants to do what comes natural. The KH model explicitly recognizes agents’ independent streak, thereby encouraging design of institutions that harness that energy instead of denying or suppressing it.

Competition – even in government – encourages continuous improvement of knowledge and practice. The Bush Administration’s management agenda, which featured quarterly stoplight (green, yellow and red) scorecards on each agency’s implementation of cross-cutting policy initiatives, was a tremendous success (GAO 2005d). The key mechanism was systematic, regular, \textit{comparative} assessment. No one likes being at the bottom of a ranking and everyone likes being on top. PART similarly makes explicit use of competition; it is designed to illuminate programs’ similarities and it places the burden of demonstrating the relevance of unique circumstances on program administrators. Reviews using the PART have yielded many improved practices in

\(^{50}\text{This is of course a tenet of the Public Choice school of economics. See Cooter 2000, Gwartney 1988, Mueller 2003, North 1990, Olson 1971, Payne 1991, Tullock 1965 and Wagner 2005.}\)
strategic planning and management. Transparency of the President’s Management Agenda (PMA) scorecards and PART ratings appears to be a key component. Officials are loath to admit to public record any prima facie evidence of incompetence – or to lie. Therefore, while these initiatives may not impress everyone, they have helped clean up some of the worst habits in the federal government.

That said, we should avoid infatuation with the data used for scorecards and such. Beryl Radin, an outspoken critic of GPRA, would agree that information is both subjective and imperfect. She has identified as a “performance mindset” that consists of (debatable) assumptions about information, incentives and processes: feasibility of establishing clear goals, assigning responsibility, measuring outcomes, impacting outcomes, generating timely and accurate data, and using the results information for decision-making. The performance movement, she adds, rests on naïve assumptions about information: 1) It is already available, 2) It is neutral, 3) We know what we are measuring, 4) We can define cause-effect relationships in programs, 5) Baselines are available, and 6) All activities can be measured (2006:19-20, 184-85).

It should come as no surprise that political entrepreneurs (elected and appointed officials) see creation where career officials see destruction. The former sit at the top of the hierarchy and enjoy exercising their power, which is a constraint to career staff. The primary question about any decision is who gets to make it.51 Primary drivers of decisions are the outcomes and prospects of budget and election cycles that determine at the macro level who wins and loses positions of influence. For civil servants, funding of

51 This is implicit in the KH framework of relationships in which policy is formed, communicated and executed.
the programs tied to their careers dominates; freedom from executive and legislative meddling is also highly valued. Elected officials and political appointees seek dramatic demonstrations of partisan policy preferences. These may be just as strongly linked with funding of favored programs, but since this can be difficult to achieve in such a highly competitive democratic system, they often concentrate on rhetoric, which is relatively cheap.

Legislative and executive officials devote far more attention to earmarks and initiatives than to improving effectiveness of the programs they inherited. “One can hardly take a step around Congress without coming across a failed government program that congressmen are attempting to fix with another government program, without the slightest suspicion that they might be ushering in another failure” (Payne 1991:43). Agencies are regularly provided “absolute rules that must not be broken,” before they have implemented the last one (which will also never be repealed). Making every new problem the top priority causes agencies to “lurch from one crash program to another” (Wilson 1989:341).

Like capital markets in which stock prices and CEO decisions are driven by quarterly earnings announcements, political markets are driven by news reports of what Congressman X or the President has done for voters lately. This has created a culture of instant gratification that overvalues inputs. Outcomes – which are remote and far more difficult to demonstrate, quantify and attribute, are undervalued. Moreover, when it’s all about who gets credit, the rational marketer packages change to concentrate benefits. Marginal investments on the order of 1% will not thrill the masses, regardless of how
well the money is spent, if the objective is maintenance or even upgrade of existing services. However, if that 1% is $10 million and it buys something new for a specific constituent group, it’s worthy of a press release.

Structural position and ideological differences lead to behaviors that resemble conflict more than coordination. Can we improve order by weakening controls? There may be no way to find out other than to incrementally relax constraints, limit the risk of doing so, and see if coordination improves. Emancipation may be a pipe dream, but governments of all kinds recognize the occasional necessity of symbolic sacrifice to expand the empire. In the next section, I will sketch an illustration of the existing order that will facilitate application of the aforementioned theories to the U.S. system of federal administration.

**Introducing the Players**

Graphics are a convenient and effective means of simplifying and communicating evolution of federal network relationships. This section describes the hypothetical model using 7 diagrams created with NetDraw, a social network analysis tool (Borgatti 2002, Hanneman 2005 and Clark 2006). We know enough about typical positions and relationships to construct a simple abstract model of the status quo that includes six agent types, each symbolized by a letter:
agents of the same type that occupy different spaces in the structure are distinguished by numbers and letters as needed. For example, the Secretary of Department I is AI, the head of its second component agency is AI,2, and the manager of the first program in Agency 2 is M2a. In graphic illustrations of the federal KH, connections are indicated by lines with arrows on each end. The first five diagrams are egocentric, meaning they focus on a single agent and those connected with it, and are limited to direct connections. The sixth is a composite that includes all KH elements and connections.

Citizens, typically acting as members of special interest groups (indicated by numbers corresponding to the agency of interest, such as C2), have access to and influence over all other stakeholders (see Figure 1). For this reason, they are positioned at the top of the hierarchy. Elected officials (P, H and S) are at the next level, followed by the appointees (A) and finally program managers (M). To keep things simple, the stylized department includes just three agencies and each of those agencies includes just three programs. Organized interest groups and informally allied citizens support or protest activities at the agency and program levels. House and Senate interests are

\footnote{Department heads (e.g., AI) are excluded because their knowledge and influence are too general to warrant attention of interest groups, which is more often directed at program and agency level officials.}
represented by the committees that have oversight and funding jurisdiction. Their interests are likewise focused on the agency and program levels, even when they summon members of the President’s Cabinet to testify.\footnote{AI is not linked directly to C, H and S or assigned a policy rating because typically, Cabinet departments are too diverse to attract wholesale enthusiasm or disdain from any member of Congress or the President. Political appointees are frequently directed to freeze or ignite a majority of their programs as part of broad Administration strategies. Legislators, however, think narrowly in terms of specific programs, and refer to the Executive branch organization chart only to find out who can be held accountable for details of interest to them.}
Members of Congress (e.g., S in Figure 2) answer to voters and interest groups, do battle or collaborate with the other elective body and the President, and hold agency heads accountable for implementing legislation.

Figure 2 – Senator’s view
The President is directly accountable to all citizens, promotes policy priorities in Congress and exercises discretionary authority via his Cabinet and other appointees (see Fig. 3).

Figure 3 – President’s view
Agency heads are the most important elements in the KH network, because they are positioned at the interface of political and operational interests (see Figure 4). Each is an executive with a domain that may include dozens of programs with billions of dollars in annual budget authority that draw the interest of many large citizen groups. For the same reason, they attract significant attention from Congressional committees. Those positioned within one of the conglomerate Departments are members of their Secretary’s executive team. Finally, they have authority over perhaps thousands of civil servants who manage the programs in their agency.

Figure 4 – Agency head’s view
Program managers have direct connections with citizen interest groups, their agency head, and their peers (see Figure 5).

Figure 5 – Program manager’s view

Putting it all together, we come to Figure 6, which at a glance makes it apparent that unorganized citizens, the President, Department heads and program managers are less connected than others and therefore less likely to influence network efficiency and effectiveness. Interest groups, members of Congress and agency heads are all in positions of power and have incentives to use it. Scenarios that follow focus on a subset
of this network – agents connected to AI,2 – and add several dimensions that offer an explanation of how these forces interact under the status quo and how different fiscal, information and structural conditions may alter their relationships and capacity to adapt.

Figure 6 – All together now

**Tie Strength**

KH connections are all symmetric in that information flows in both directions, but valuation of the relationships they represent is asymmetric and subjective. Moreover, all connections are not of equal value. In the real world, everyone is aware of this but may
be reluctant to admit it – especially if their true opinion contradicts answers implied by the official organization chart or leaders’ stated commitments to joint initiatives. A key element of my thesis is that policies are not implemented as designed and feedback on results is inadequate because government is not the machine policymakers evidently assume. Politics lives in the bureaucracy, too. In other words, every actor – citizen, elected or appointed official, and civil servant – is a semi-autonomous agent. Each decides the extent to which s/he does the bidding of those to whom s/he is accountable based on a personal utility function. Obviously, interests are not completely aligned or conflicting, so in virtually every instance, there is plenty of room for discretion in promoting or opposing perceived or expressed interests of connected parties.

Analysis of the nature of the forces at work and their effects on decision making can be illustrated by adding a qualitative dimension to the hierarchic structure of ideal types. Where is control effective and where is it ineffective, and why? Who is inclined to cooperate with whom and where is active or passive resistance the norm? Until now, KH diagrams have indicated who is connected (i.e., has regular interaction) with whom. Some of these links are much stronger than others. This section introduces a device for hypothetical valuation of bilateral connections that will translate our understanding of bureaucratic behavior into systemic effects. Ideal types of agents were derived from knowledge of the governmental hierarchy. Likewise, ideal types of valuation criteria can be used to illustrate tendencies of individuals to facilitate control or coordination with others based on their relative roles and a few fundamental human motivations.
Attitudes provide valuable insight regarding the likely reception of initiatives or rule changes. Those attitudes are the lubricants for the social machinery of government; they determine the extent to which policymakers’ plans are implemented, which requires actual control and coordination among agencies and programs. If critical agents’ interests are aligned, trust is strong; communication, responsiveness, confidence, and almost everything associated with management is easier. We can assess the performance of the KH system as an effective control and coordination mechanism by analyzing its dynamic behavior. This requires describing the system by measuring its properties, which are derived from agents’ relationships. Relationships, which in the KH model appear as bilateral connections, can be described and quantified for analytic purposes by common measures of value. Higher values indicate propensity to initiate or accommodate control or coordination with the other party – which further indicate improved efficiency and/or effectiveness of the system, i.e., independent of policy.

Preceding discussions established that basic human traits are manifested in the federal bureaucratic environment as patterns of behavior that are unique only to the extent of political influences. Self-interest is reflected in the friction that may inhibit control and coordination or provide the necessary traction, depending on whether we can recognize, understand and address the effects of institutional incentives. Toward that end, I have defined four major interests that apply to each type of agent: autonomy, ideology, security, and budgets. Together, they capture the most significant incentives for discretionary behavior. As indicated in Table 3B, I have labeled each in terms that can be used to describe properties of a relationship; questions assist evaluation.
Table 3B – Valuation criteria

<table>
<thead>
<tr>
<th>Policy or process rules (P)</th>
<th>Does the other party help me achieve policy goals and make my job easier? Conversely, does the other party intentionally or unintentionally constrain my freedom to make policy or to manage?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public benefits (B)</td>
<td>Does the other party help me serve the public interest as I define it? Or are we working against one another in ways that significantly impact effectiveness?</td>
</tr>
<tr>
<td>Validation (V)</td>
<td>Is my legitimacy and esteem enhanced by this association? Does the other party promote my career, image, and visibility, and share credit for achievements? Or am I left to defend myself against angry stakeholders (or worse, made a scapegoat)?</td>
</tr>
<tr>
<td>Funding ($)</td>
<td>Does the other party help me secure resources – or are we competitors?</td>
</tr>
</tbody>
</table>

To quantify – hypothetically, of course – agents’ subjective assessments of their various relationships, I will use an arbitrarily selected scale of integers ranging from -3 to 3 for each of the four components. This allows for some variation without pretense of precision in estimating individual valuations. A rating at the lower end (-3) indicates strongly negative sentiment. Ratings at the top end (3) indicate strong alliance or affinity. The middle rating (0) indicates indifference. If a pair of ratings features symmetry, ratings are reinforced. If they are lopsided, one offsets the other. The idea is that it “takes two to tango;” one unhappy partner means no dance or a very awkward relationship. Partners that are both hostile could “make a scene.” Eager partners might have a chance of creating something.

The range for each link (connection end) is therefore -12 to 12 and *tie strengths* (aggregate value per connection) vary from -24 to 24. Negative values indicate hostility.
toward a perceived threat, which is manifested by suppression or obfuscation of information in deliberate attempts to subvert others’ control or coordination efforts. Positive values indicate trust and alliance; information is volunteered, activities are transparent and requests are seen as opportunities, not burdens. These attitudes are driven by perception of friend vs. foe within the applicable political context. Social capital can be scarcer than appropriations, forcing choices that leave some feeling slighted or betrayed.

Those with authority rather enjoy the attention that tends to accompany their position, while those at their mercy may resent the coercion and pour their efforts into resistance (isolation or alliance with opposing forces). Net value (also referred to as link weight) may be positive on one end of any given relationship and negative on the other, and because third parties hold both accountable for “coordination,” the correlation of their aggregate (subjective) value and investment of resources may be negative or nonexistent. The most obvious example is an agency head with a program the Administration would like to eliminate. Congress continues to fund the program while the agency head attends to higher priorities and the program manager hardly speaks to his boss. Peers may see no reason to share anything and in extreme cases could be hostile (negative net value on both ends).

Those at the top of the hierarchy are privileged to have the advantage in most of their relationships. Concealment and avoidance are relatively effortless because they face few credible threats. Hence, citizens and legislators (C, H and S) have few negative valuations. Their positives may not reflect trust, which is optional for those who have
coercion available. More importantly, elected officials and appointees alike equate doing their jobs with zealous exercise of power over subordinates. While all such links are positive, some are preferred. For example, legislators may place low value on relationships with agencies or programs that deal with broad-based, controversial issues that they do not strongly support or oppose, especially if the program(s) enjoy strong support of the public and the opposition party. They place high value on relationships with agencies and programs whose activities can be directed to benefit partisan and constituent interests. The general rule is that agents preferentially invest in relationships with natural allies; exceptions illustrate the folk wisdom of keeping your enemies closer than your friends.

For example, the head of Agency 1 and the corresponding House appropriations committee chair (see Figure 7) have a relationship that appears unproductive (link weights are -12 and 5, respectively). AI,1 could not be less enthusiastic and H is only mildly so because the chairman has stated in public that the agency should be eliminated – a position not supported by the Administration.

**Figure 7 – Link weights**

Since the rest of Congress does not support the committee chair’s position, either, he hobbles the agency through micro-management (frequent hearings, detailed spending constraints, etc.). For AI,1, component scores are P=-3, B=-3, V=-3, and $=-3. For H,
they are $P=2$, $B=1$, $V=1$, and $S=1$. The agency head faces obstacles at every turn (low $P$), cannot devote sufficient attention to management (low $B$), must defend his agency against accusations of waste and incompetence (low $V$), and must fight for every nickel of every budget (low $S$). The Congressman enjoys exercising his power (high $P$), believes his actions prevent the agency from doing harm (positive $B$), finds outrage useful for press releases (positive $V$), and needs unworthy programs to raid for funding worthy ones (positive $S$).

Link weights in Figures 8-13 in Chapter 4 reflect this process of sympathetically (in the Smithian sense) estimating the subjective costs and benefits of each bilateral relationship. Each is a sum of four independently valued components. The process of estimating each component value follows the pattern of reasoning described in the Figure 7 example. The method is neither formulaic nor arbitrary; rather, it applies typical bureaucratic behaviors discussed at length in the preceding chapters to specified initial conditions regarding each pair’s relative position and the relevant organizational characteristics. Tie strengths measure connectivity by summing each pair of link weights.\(^5\) To simplify graphic presentation, tie strengths are divided into five ranges: hostile (-24 to -15), reluctant (-15 to -5), indifferent (-4 to 4), agreeable (5 to 15) or partner (15 to 24) categories. Each has a distinct line thickness and color.

It is important to remember, as these methods are applied to the various scenarios in Chapter 4, that relative and aggregate tie strengths and link weights depicted in the KH figures and tables – and the analysis – rest on the four criteria in Table 3B and their

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\(^5\) Some ties appear stronger than they are due to asymmetric valuation – a topic for analysis in the Chapter 4 scenario discussions.
application. The modeling technique is not limited to this set of values or their application; other scholars may wish to experiment with alternative schemes of valuing connections. In a steady state (e.g., the Baseline scenario), implications are limited; connection values are functions of internal and external politics that change slowly, if at all, and that lie beyond the scope of this study. However, rules of engagement can have marginal effects. The question at hand is how the system itself can be made more effective, irrespective of policy. Therefore, using graphic illustrations of a comparative statics technique, rule changes prompt revaluation of existing connections. I will infer improvement or degradation of the system’s effectiveness as a control and coordination mechanism based on changes in the hypothetical values.

55 These independent variables are Attributes such as size, policy disposition and program performance ratings, all of which are introduced in the next chapter.
CHAPTER 4. FROM POLITICS AS USUAL TO TRANSPARENCY, COMPETITION AND FLEXIBILITY

In this chapter, initial conditions are added to the stylized KH components and machinery for elements connected to one of the agencies (AI,2). This subsystem includes 20 connections, 9 of which include AI,2. Link weights are assigned to each end of each connection as described in Chapter 3. Additional attributes are applied to some elements: agency and program budget size (small, medium or large), executive policy disposition (favorable, neutral or unfavorable), and – at the program level – House and Senate policy disposition. Comparative static analysis of micro and macro connectivity proceeds to cover five hypothetical alternative scenarios, each of which changes key conditions relevant to the research questions. Table 4A labels and describes each scenario and indicates the associated graphic:

<table>
<thead>
<tr>
<th>Table 4A – Hypothetical scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Baseline</td>
</tr>
<tr>
<td>2. Austerity (President’s Budget)</td>
</tr>
<tr>
<td>3. PART (Program Performance Information)</td>
</tr>
<tr>
<td>4. Relaxed (Spending Discretion)</td>
</tr>
<tr>
<td>5. Accountability (3 and 4 combined)</td>
</tr>
<tr>
<td>6. Lean (2 and 5 combined)</td>
</tr>
</tbody>
</table>

To analyze the system and its effectiveness in facilitating decision-making, I have specified agent types, their attributes and relationships, and now incorporate conjectured
attitudes about specific relationships based on those attributes and the landscape of constraints. Attitudes, quantified in the KH model as link weights, are determinants of cooperative behavior. Policymakers, to the extent they are serious about implementation and program outcomes (as opposed to rhetorical impact and electoral outcomes) must consider competing interests and expectations embedded in the organizational structure.

Students and practitioners of government often use the term “coordination” loosely, assuming common interests and voluntary sharing of information and burdens among agencies and programs. Reality is that governmental organizations are highly constrained and lack incentives to do this. Important requirements for inter-agency coordination lead to formal agreements that clarify roles, responsibilities and resource considerations. However, within an agency, control is assumed. This is an error, because in the public sector, authority is never absolute or concentrated in one entity. Executives typically overestimate their knowledge and influence while underestimating administrative barriers to change. Bureaucrats are famous for passive-aggressive behavior, and not because they are a different breed of the species. Entry and exit options that effectively coordinate decisions in a free market do not exist in the federal hierarchy. Program managers (M) cannot entirely ignore their superiors, but since there is little chance of their being fired and even the President cannot unilaterally cut funding, they can subvert policies they oppose – mostly by opportunistic withholding, manipulation or leaking of information. The same is true of political appointees (A), who attempt to hide policy plans from suspected moles. Therefore, connections on the organization chart can be very weak in practice. They may even subtract value; either organization may invest
heavily in conflict with the other over changes that may not have a clear net cost or benefit to other stakeholders.

While no one wants to admit it, politics is not separate from administration. Just as in the legislative arena, accountability is shared, yet it is difficult to reach consensus on how to measure results and virtually impossible to obtain agreement on how to achieve them. Since programs are designed and constrained by legislation that is infrequently updated – and even then only at great cost – day-to-day operation of the government defaults to investment-based decisions that take existing outputs and outcomes as given. Executive, House and Senate policy ratings (favorable, neutral or unfavorable) are fixed because agencies and programs are inherited by each Congress and Administration with blueprints that are very difficult to change.

Accordingly, decisions are entirely subjective. The KH model makes this subjectivity endogenous in order to test the capacity of the system to adapt. It is common knowledge in the civil service that the first response to any request is “Who wants to know – and why?” Absent the clear authority and accountability mechanisms found in capitalist organizations, agents in the public sector create heuristics – decision rules that operate on general and specific levels. The former is a “friend or foe” judgment that colors every interaction of a relationship, and the second is recognition that occasionally, an opportunity or crisis may justify an exceptional response. In Figure 7 of Chapter 3, the agency head and House committee chair valued their relationship at -12 and 5, respectively, under general conditions (a baseline). Suppose legislation is proposed by either political party that affects a major program in the agency. The committee, whose
chairman is not fond of the agency or its programs, is no longer a nuisance but a real threat that cannot be ignored. Agency valuation swings from -12 to -8 – signaling a shift of attention, not affinity, across-the-board – and legislator valuation increases from 5 to 9 (also +1 for each of the four components), as information exchange becomes critical to preparation for upcoming public hearings on Capitol Hill. The relationship is not cozy but circumstances have raised its importance.

Use of the KH model requires estimating the sentiments of each agent as rules and circumstances change to quantify their inclination to cooperate with specific parties. The five hypothetical scenarios that follow are iterative thought experiments that systematically consider what changes in the network as new rules alter the institutional framework illustrated in the baseline case. In the interest of getting to the point of the exercise instead of getting lost in documentation of minutiae, I have provided the results of my own thought experiments in tables that accompany the diagram for each scenario to allow recalculation of results. Interested readers should have little difficulty following my logic, given the discussions and examples in this chapter. Different results would be expected if one applied a different understanding of bureaucratic behavior than what I’ve incorporated in the criteria and applied in my own sympathetically subjective assignment of values. However, the model’s internal consistency is sufficiently robust for illustrating incentives for coordination within a well-defined federal hierarchy. To be clear, values for P, B, V and $ in Figures 8-13 are assigned, based on consideration of the specific relationship and circumstances. Values in the scenarios associated with Figures 9-13 build on the baseline and on one another in marginal fashion. For example, the first row
of the table following Figure 8 provides details that support the link weights/subtotals (0 and -9) for the AI-AI,1 connection in the graphic illustration. The table following Figure 9 indicates link weights/subtotals for that connection become 0 and -12. How and why does this happen? AI’s subtotal did not change; however, there are changes at the component level. B (public benefits) rise from -2 to -1 because from his point of view, the public is better served by austere measures that cut funding of AI, 1 – a large program rated Unfavorable by the Administration (see Table 4B). This is offset by a decrease in his $ valuation from 2 to 1 due to the inevitable resistance of agency level management and staff to this decision and its consequences. The other subtotal, which fell from -9 to -12, indicates that AI,1 “withdrew” even further from AI. In this case, valuations of components P and V dropped from -1 to -3 and from -2 to -3, respectively. Clearly, there is significant interaction among these variables, and in this case a significant budget cut makes the agency head’s job much more difficult. He shares the high level objective but has to answer to many stakeholders who do not. V falls because he considers making the cuts a thankless job.

In addition to demonstrating application of behavioral lessons to use of the model, this example illustrates that moving from one scenario to the next rarely adds or subtracts more than one unit from any given component value (range -3 to 3). However, it also shows that these small changes can combine to produce significant shifts in the nature of various relationships. Relative strengths of relationships are largely determined by the initial conditions (baseline valuations), which are functions of the distribution of agency and program types and their policy-driven relationships with the Administration and
Congress. In other words, the major determinants of connectivity for any given agency or program are budget size and policy disposition. However, the system-wide connectivity between agencies and programs of different sizes and policy dispositions and between those elements and others in the system is affected by the incentives for using performance information to allocate resources. We could use the same array of ideal types to create a model that looks quite different, but since responses (marginal increases or decreases in valuations) are functions of well-defined criteria and hierarchical structure, rejection of my valuations and the basic conclusions that follow scenario changes would require rejection of the arguments put forth in the preceding chapters that describe bureaucratic behavior.

Baseline

The fully specified KH baseline in Figure 8 includes agencies and programs from Figure 6 with direct relations to Agency 2 (AI, 2); they have the following attributes:

<table>
<thead>
<tr>
<th>Table 4B – Baseline attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Element</strong></td>
</tr>
<tr>
<td>AI,1</td>
</tr>
<tr>
<td>AI,2</td>
</tr>
<tr>
<td>AI,3</td>
</tr>
<tr>
<td>M2a</td>
</tr>
<tr>
<td>M2b</td>
</tr>
<tr>
<td>M2c</td>
</tr>
</tbody>
</table>
Budget size (third column) – an important indicator of potential impact – is represented in Figures 8-13 by relative node size. The default (Medium) node size equals that of nodes without this attribute (C, S, H, etc.). Each program and some entire agencies find favor or disfavor by the President and by the majority in each house of Congress based on criteria such as ideology, appeal to campaign contributors, the likelihood of winning a funding battle in Congress and expected impact on chances for re-election. These attributes (Epolicy, Hpolicy and Spolicy in Table 4A – corresponding to the Executive, House and Senate) are indicated by diamonds (Favorable), squares (Neutral) or inverse triangles (Unfavorable). The numbers near the nodes are link weights, which are sums of the four subjective values P, B, V and $ described in Chapter 3. Tie strengths (the sum of link weights) are sorted into five quantitative ranges. From strongest to weakest, the corresponding colors, thicknesses and descriptions are: maroon (thickest) = partner, green = agreeable, grey = indifferent, blue = reluctant, and red (thinnest) = hostile.

In the table below each diagram, every row represents one of these ties or connections. Columns 1 and 7 list the nodes/elements, columns 2-5 and 8-11 list the criteria valuations for the preceding elements, columns 6 and 12 list the link weights/subtotals and column 13 lists tie strengths/totals. Parameters for estimating P, B, V, and $ are consistent with behavioral discussions in Chapter 2:

1. Fiefdoms abound; peers place little value on mutual association.
2. Subordinates resent authority unless they enjoy favored status.

56 There may be significant differences in preferences between the branches of government, even if both are controlled by the same party.
57 None of the relationships in this scenario fall into red/hostile territory.
3. Appointees and legislators value any connection in which they have the upper hand.

4. Everyone values special interest relationships.\footnote{Some interests are hostile. However, the program or agency would not exist if this were the majority opinion. C2 represents interest groups as a whole and the model assumes that it includes some friendly groups for every legislator and program.}

5. Program managers are much closer to special interests than to appointed superiors, even when they enjoy favored status.
### Figure 8 – Baseline

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<th>V</th>
<th>$</th>
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<th>P</th>
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<td>3</td>
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| Total   | 100 |
Policy attributes appear to be highly significant (e.g., AI-AI,1 vs. AI-AI,3 and AI,2-M2a vs. AI,2-M2b). Policy preferences interact strongly with budget positions because intervention of any kind requires resources. However, funding does not automatically deliver supposed or desired outcomes, nor is it reasonable to assume that programs can be effectively managed according to any given policy. Programs are funded as authorized, including all applicable legal and bureaucratic constraints – not as appropriators or executives would design them if they could and as they believe they should operate. Therefore, policy ratings in the KH model refer to official documents and votes, not policy as articulated in press releases. And because reauthorization is infrequent and complex in comparison to annual budgets, the most convenient way of expressing support or dissatisfaction with existing programs is via funding mechanisms.

In many cases, reality is altogether different from anything found in public records or the media. For example, initiatives touted as improving a program may actually be intended to hobble it if it is rated Unfavorable. The gap between intentions, actions, and reports prevents learning from experience, which is critical to effectiveness of any system. The KH modeling exercise attempts to explain in part why this occurs and what may bring about convergence of plans and results. It may be that Congress’ earmarks, Administration initiatives, and career bureaucrats’ righteous resistance are rational substitutes for futile attempts at responsible governance. If we can diagnose the dysfunction and identify realistic reforms, perhaps some trust in the system can be restored and with it, a capability to connect policies and results.
That said, variables in the KH model are subjective, and since none of them are independent of spending, the propensity of agents to get along really boils down to whether they are allies or competitors for funding. The most obvious feature of the diagram is that citizen interest groups’ relationships are all strongly positive. This is a function of their position in the hierarchy; controlling is highly preferred to being controlled. However, their relationships have a very different quality than others in that in the aggregate (organized and unorganized), they monopolize a major source of power – votes. While the benefits of H-C2 and S-C2 ties are fairly obvious, the diagram illuminates the value of M2*-C2 relationships. Programs are created and funded to concentrate benefits (Olson 1971). Once implemented, programs’ beneficiaries are in far more meaningful contact with bureaucrats than with Congressmen. Federal employees and grantees know the issues and find their greatest (sometimes only) allies in the hordes of citizens they serve. Through associations of state and community organizations, they can quickly mobilize initiatives to beat back threats or to promote policy changes through key legislators.

Also worth noting is the executive/legislative political alignment. Although AI,2 is not particularly important to the Administration one way or another, at the program level we see agreement with the House and disagreement with the Senate – presumably because the President and the House majority belong to the same party, while the Senate is controlled by the opposition. This is reflected in the link values with the House (6) and Senate (-5). The Unfavorable agency (AI,1) and program (M2a) are resisting the Administration’s policy reforms. AI,1 is an appointee trying to take one for the team, but
his organization has a large internal and external constituency. Under these circumstances, there is only so much he can do and there is little to celebrate by any measure.\(^{59}\) The career manager bites his tongue but is not part of a team. He is jealous of his more fortunate peers who seem to get more of everything without much effort, while he must fight to survive.

There are other interesting ways to slice and dice the information contained in Figure 8. First of all, we can compare “egocentric” views of the network by adding the tie strengths for each node. This provides a measure of connectivity. However, this could be a function of numerous poor quality connections. Average strength provides a better indicator of the extent to which an agent may enhance control and coordination of the system. Table 4C quantifies what is readily observed in Figure 8 – that the people in charge value their relationships (most of which are with subordinates in this model), while those closer to operations are indifferent, on average.

\(^{59}\) “Large programs are well established; they have important constituencies and, usually, long histories; they are like large ships with a lot of inertia and are unlikely to be driven off course by a negative (or positive) assessment by an OMB budget examiner. Small programs do not have the same political support as big programs, so with them OMB can apply a PART assessment more aggressively and can even propose to kill a small program that gets a very bad rating in PART. OMB simply cannot kill or significantly change the budget for a big program, no matter how bad, without causing a disturbance” (Gilmour 2006a:175). This description of the political reality is valid regardless of the policy source.
Table 4C – Baseline tie strengths

<table>
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<tr>
<th>Node</th>
<th>Tie total</th>
<th>Avg.</th>
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<td>S</td>
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<td>10.0</td>
</tr>
</tbody>
</table>

Asymmetry, defined for KH analysis as the absolute value of the difference between the two link weights (subtotals in the table) that constitute tie strength (totals in the table), indicates whether a relationship is mutually agreeable or disagreeable (low asymmetry) or one-sided (high asymmetry). High variances can be masked by a tie strength indicating indifference. In this model, there are several instances of relationships that can be characterized as coercive in that one party reluctantly submits (e.g., AI-AI,1, AI,2-M2a, and AI,2-S) and others in which like (AI-AI,3 and AI,2-H) or dislike (AI,1-AI,3 and M2b-M2c) is mutual. The baseline measure doesn’t add much to our understanding, but the hypothetical scenarios introduce changes that are not evenly distributed across the network and changes to the balance of power that can be partially explained by this statistic.

Before proceeding to the Austerity scenario, we should ask whether the structure supports existing policies – in reality as opposed to formally, where everyone pays lip service to official proclamations. As indicated in Figure 8, the department head, AI, devotes virtually all attention to agencies where he wants to make a difference and
believes he can. The unpleasant work of dealing with the unfortunates in Agency 1 is neglected or delegated. Consequently, agency head AI,1 may become overzealous or “captured” by career staff – neither of which will improve program results. The likelihood of success with the other two agencies is much higher. AI,2 valuations are reasonably consistent with executive branch (E) policy. Unfortunately, this is not true at the M level, where only M2b is getting support and reciprocates by parroting E policy in communication with C2. M2a expresses outrage to anyone who will listen (privately, of course), while M2c operates semi-autonomously. Diverting attention from priorities to problem areas may not be the answer, as it may prompt the unhappy troops to dig in even further. AI,2 is acutely aware that while he owes his position to the President, Congress carries the bigger stick with respect to resources and publicity for his programs.

We may assume that routine decisions have already incorporated policy preferences to the extent possible. AI,2 has received modest annual budget increases as the President does not feel strongly enough about the agency or its programs to pick a fight with Congress. The Administration has asked for slightly less for M2a and significantly more for M2b each year, and Congress has granted them because the amounts are not large and the programs are not currently on their priority lists. M2c has received the average (inflation-adjusted) increase.

The “kaleidics” of this hyperstructure raise some interesting questions:

- Are some of the connections virtually nonexistent? Is this a problem?
- Do some relationships dominate attention at the expense of program performance?
Where are the opportunities – resources that could be more productively employed?

Does scarcity provoke healthy or unhealthy competition?

If there is such a thing as objective performance information, does it matter?

Who wins and who loses if the rules are relaxed? What are the systemic effects?

**Austerity (President’s Budget)**

There are few lessons for political economy in a scenario without spending constraints. Therefore, the first adjustment to the Baseline conditions is illustrated in the Austerity scenario (Figure 9), which reflects nominal cuts in the President’s Budget – in sharp contrast to the Baseline assumption of annual increases. Congress approves such a request, not as a heroic attempt to restore fiscal integrity but rather as surrender to economic pressures (lower tax revenues). The recession increases demand for public services but it does not affect politicians’ policy preferences. An economist would make cuts where marginal costs are high relative to marginal benefits, but cost and performance information of this kind is virtually nonexistent in the public sector. However, this is a moot point because technological barriers are eclipsed by the political difficulty of reaching agreement on what counts as a cost or a benefit for any activity. The sure bet is that cuts will come from politically vulnerable programs.

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60 Former Comptroller General of the U.S. David Walker, who resigned in March 2008, spent the last several years of his tenure sounding alarms about the fiscal position of our country. “The ‘status quo’ is not an option,” he said. “[W]e cannot simply grow our way out of this problem. Tough choices will be required.” He recommends that we “fundamentally reexamine and transform” entitlement programs, other spending, and tax policy (GAO 2007b).
The White House (Office of Management and Budget) instructs agency heads to request 5% less than current year appropriations for discretionary spending items in the next budget (effective in the fiscal year beginning approximately 18 months after guidance is issued). This reduction applies at the Department level, so there is some discretion within constraints of Administration policy, but submissions that do not adhere to this aggregate target will be considered “non-responsive.” Clearly, all stakeholders are affected; they will be inconvenienced at best and deeply offended at worst. None are accustomed to declining budgets, and the change is significant. A game of offense, albeit with clearly defined limitations and relative strengths, has become defensive. It is far more difficult to adjust to a pay cut than to be denied a raise. Everyone fights to become one of the few exceptions, and they will use all sorts of arguments and tricks to shift the burden elsewhere. Polarization ensues, as programs shift into survival mode and authorities tighten their grip. Layoffs are a last resort; all managers value Full Time Employees (FTE) from workload and ego perspectives. At the 5% level, most programs will forego technology improvements, travel, research and other discretionary spending categories. If they have already cut these items, they will count on attrition, including early retirement, to thin the ranks. Still, they cannot control the timing or distribution, and the inevitable shuffling of people and duties is especially difficult in the public sector. Closing regional or district offices – a common practice in private sector downsizing – is guaranteed to create problems on Capitol Hill, so it’s avoided wherever possible. However, program managers may leak news of the threat to special interest allies who in turn alert their contacts in Congress to the President’s plans. This is why
appointees are secretive about budget details. In summary, the grim budget guidance makes some routine interactions suddenly appear more costly and risky.

Starting with the baseline structure and assumptions, one would expect AI,2 to obtain the average allocation of -5% because it is small and neutral. AI,1 will sacrifice more because it is relatively rich in resources, yet out of favor. AI,3, which is small and favored, will be cut less than the others. At the program level, for the same reasons, M2a will be cut by more than average, and M2b will suffer less than average. M2c is likely to be tapped for more than average, as well, since it is the only large program and the unfavored program, M2a, is too small to provide discretionary resources needed to protect medium-sized “pet” M2b. The resulting diagram and supporting valuation matrix appear below.
Figure 9 – Austerity
The cuts have a dramatic effect on total valuation, which dropped to 53 from the Baseline of 100. While the impact is not uniform, it is broad based, as 75% of all connections were “devalued.” Our system appears to fail the adaptation test; agents withdraw to protect the existing order instead of seeking to create an order that may be more appropriate under the new conditions. For example, low earnings in a private corporation will often prompt consolidation of similar functions from two or more operating units to achieve economies of scale. This is rarely done in the public sector, primarily because FTE are treated as property rights held by organizational units and executives.

The egocentric picture is even uglier. The agency head (AI,2) that was confidently managing a difficult situation finds himself caught in the crossfire of competition for scarce funds (see Table 4D). A related development is the deterioration in relationships with M2c, the “cash cow” that is now being milked to hold “pet” M2b harmless – much to the chagrin of citizen groups associated with M2c.

**Table 4D – Austerity tie strengths**

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<td>S</td>
<td>17</td>
<td>8.5</td>
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As one would expect, asymmetry increases significantly under the Austerity scenario, due to competitive pressures and jealousy (from the baseline of 84 to 105). For example, AI,1 and AI,3 are slightly detached in baseline conditions, but the feeding frenzy will obviously provide justification for the Administration to raid the large, unfavorable agency (AI,1) to support the department’s small, favorable agency (AI,3). AI,3 actually warms up to its new benefactor (from link weight of -2 to 0), but AI,1 is steamed, and concluding that not much good can come of sharing information with his peer, his corresponding link weight drops from -2 to -7.

What is the key to unlocking this rigid connective structure? Policy ratings (and associated budget priorities) appear to determine who speaks to whom. Thus, change in out-of-favor organizations moves slowly at best and at worst may encounter booby traps. The tragic consequence of political calculation is that effective programs may be cut or eliminated instead of ineffective ones. For instance, a program that funds efficient health clinics might be sacrificed in favor of one that subsidizes hospitals or laboratories that cannot identify specific benefits. The same is true across issues: Republicans may support energy research at the expense of education, while Democrats might do the opposite. If we cannot fund both programs and neither can demonstrate results, ignorance or neglect could have significant opportunity costs. The sad truth is that we don’t know which programs are effective by any measures.
PART (Program Performance Information)

Agencies are not monolithic; the nature of their goals and assigned tasks differ in important ways that should be understood and considered in determining appropriate degrees and forms of autonomy. James Q. Wilson recommends deregulating government by facilitating agreement on and commitment to priorities among goals and constraints, by matching distribution of authority and control over resource allocation to tasks, and by assessing organizations by results (1989:11, 24-28, 369-76). Transparency can prevent or destroy fiefdoms, which can be devastating to organizational effectiveness. Fiefdoms hide data and manipulate information to reflect the uniqueness of their turf, to support biased communication of their performance and to make it difficult for top management to discover unsavory details about their operations (Herbold 2004). Barriers to sharing knowledge vital to successful network operation are legendary in government.

Hierarchies encourage control of information primarily as a means of preventing its misuse, but such policies often lead to arrogant behavior and unreasonable or harmful sequestering of data that others need to do their jobs (Goldsmith 2004:108-11). “The superiority of the professional insider every bureaucracy seeks further to increase through the means of keeping secret its knowledge and intentions. Bureaucratic administration always tends to exclude the public, to hide its knowledge and action from criticism as well as it can” (Weber 1978:992 – emphasis in original).

Outsiders are presumed incapable of grasping the details or may have their motives questioned, thereby rationalizing the self-serving, passive-aggressive solution of

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61 Scenarios that follow address the resource allocation issue; this one is about adding results information.
providing as little useful information as possible. Robert Herbold identifies process disciplines that combat this tendency by applying the principle of transparency:

1. Lean global processes and company-wide access to data (rejecting unique systems);

2. Standard templates and data (facilitating understanding of resources and costs);

and

3. Inspection (reviewing key measures and improvement plans).

Top management should decide what tracking tools and measures are appropriate, ensure their broad, uniform use and make it clear that attempts to circumvent the standards will not be tolerated. Direct communication from top management to employees is another vitally important counter-fiefdom tool. It reinforces the organization’s long-term goals and their link to each individual while simplifying matters and ensuring a uniform message. (Herbold 2004:Ch.3, 122, 222). Each of these principles is incorporated to some extent by the PART and the five major initiatives of the PMA.  

Traditional political processes feature few incentives to collect and communicate consistent, comprehensive cost and performance information. Politicians appear satisfied with management by inputs and anecdotal outcome data. It is unrealistic to expect them to link all resource decisions to results, but if they relaxed some of the constraints, their choice sets would expand. Replacing rigid spending plans with accountability for

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62 The Office of Management and Budget in the Executive Office of the President has rated nearly 1000 federal programs Ineffective, Adequate, Moderately Effective, Effective or Results Not Demonstrated using PART criteria for design, strategic planning, management and results. The government-wide initiatives of the (Bush Administration) PMA are Strategic Management of Human Capital, Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government and Budget and Performance Integration.
contributing to positive results will make cost and performance information matter to program managers. It would be too convenient and not as instructive to translate this vision all at once. Instead, I’ll present these reforms in two parts and then combine them. The first scenario (Figure 10) adds program performance ratings, modeling the status quo improvements in transparency vs. the baseline.

Performance ratings such as those employed in the PART process offer an opportunity to supplement highly subjective policy ratings with evidence-based criteria. There are, however, limitations to the amount of objectivity we can reasonably expect (Gilmour 2006a:177-78). A program whose existence is opposed by the Administration is highly unlikely to get an Effective rating. Likewise, a pet program will not be rated Ineffective. Ratings can be used strategically to justify policy reforms. For example, several Workforce Investment Act employment and training programs in the U.S. Department of Labor were initially rated Ineffective because they were judged duplicative. The Administration’s legislative reauthorization proposal included consolidation of these programs.

For the next scenario, depicted in Figure 10 below, PART ratings consistent with executive branch policies are added to program attributes. M2a and M2b are Adequate (yellow) and M2c is Effective (green). Budget assumptions are unchanged from the baseline. We should expect positive correlation of performance ratings and all four

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63 Programs are not on autopilot. Resources and management skill are required to maintain services, so if an Administration is not committed to the goals of a program, it can ensure its incompetence, thereby limiting the harm it would presumably be doing if it were Effective.

64 Performance ratings that reinforce policy ratings (E/F and I/U combinations) are uninteresting and will not yield much insight regarding incentives to produce or use new information. Since M2c was already being exploited, an Ineffective rating would exaggerate the situation.
valuation factors, since they can be used in competition for resources and recognition. Adequate ratings neither confirm nor contradict political assessments and therefore should have no effect.
<table>
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**Figure 10 – PART**
The effect of performance information is significant but not dramatic. Only 7 of the 20 connections’ tie strengths change – 3 of those by just one point. Total value improves to 117 from the Baseline value of 100 by virtue of the net positive performance rating of the three programs. The only connection devalued by performance ratings was AI,2-M2b; favored status based on policy is jeopardized by evidence other programs are more effective.

Sharing credit for good news is not difficult, so as indicated in Table 4E, egocentric tie strengths increase for everyone except the pet, M2b, which now has a harder time competing with its peers, especially the Effective (hence deserving) cash cow, M2c. The happiest are, of course, M2c and AI,2, who both gain respect and probably some bargaining chips in budgeting from the department head and from Congress by way of C2. Asymmetry is virtually unchanged from the baseline (85 vs. 84) because in this particular scenario, there was no bad news to offset the good and upset the balance of power.

Table 4E – PART tie strengths

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Notably, all effects of these performance ratings occur in A-M relationships. C relations are already strong, while S and H relations are not affected by executive branch self-assessments. This means even dramatic variances in performance ratings are unlikely to lead to significant budgetary consequences. Early experience with PART’s impact supports this conclusion. The Bush Administration selectively attempted to cut funding and even eliminate programs based on these assessments, but even in instances where Congress went along, it is not clear that PART ratings persuaded them (Norcross 2007:25-30). This political fact is widely recognized; therefore assessments’ primary effects are rhetorical. Relationships are affected by challenges confronted during the process or created by the ratings’ implications. However, absent legislative concurrence on the needs and methods of reauthorization or funding, little real change in programmatic strategies or management can occur. Agency heads are not empowered to utilize the information; this renders it superfluous. Appointed officials and managers alike become resentful or complacent – sometimes both. Those managing Ineffective programs are vindicated by renewed funding. Effective ratings are devalued if not supported by the reward of additional funding.

Evaluation is unlikely to produce anything useful unless it joins knowledge and power. This means it cannot be used as a political weapon against the bureaucracy and it must connect actions to political leaders. Openness and trust are necessary (Wildavsky 1987:212-15, 230-34). Thus, a noble effort at rational administration runs aground on the toxic shore of bureaucratic Survivor. The popular television show’s theme Outwit, Outplay, Outlast accurately describes career staff strategies for dealing with their political
environment. Performance information that is merely tossed into the cauldron of data may spice things up but ultimately just complicates decision-making.

Relaxed (Spending Discretion)

Competition must be present to give effect to results information. To the extent agencies or programs have fiefdoms, performance information is moot. Duplication of public sector service provision is often portrayed as evidence of waste. But without an alternative, how is it possible to detect waste? Antitrust regulations seek to ensure choice in private markets as a means of limiting monopoly power. The same principle applies to public sector providers. Overlapping jurisdictions and fragmentation of authority also improve democratic government because they provide a check on arbitrary exercise of power. Moreover, it is via open processes of cooperation, competition and conflict resolution that citizens judge whether elected officials are acting in their interest (Ostrom 1989:113, 144).

Agency heads are politically appointed, have access to detailed, timely data and directly control operations; they are well situated to optimize resource allocation among related programs from both policy and management perspectives. In the next scenario, they have marginal discretion, and we will explore the likely implications of this experiment in flexibility. Executive and legislative policy ratings constrain agency heads’ freedom to prioritize and make such reallocations. Moreover, support for change
cannot be taken for granted; the default reaction is resistance.\textsuperscript{65} Citizen interest groups (C) lose clout as program managers (M) are no longer entirely dependent on their political influence to secure appropriations. Managers must pay more attention to their agency heads’ interests. Conversely, C cannot rely completely on promises of congressional committees (H and S) to direct and maintain funding. Partnerships of private and non-profit groups with agencies may have been arranged by Congress and operated as an entitlement. Under Relaxed conditions, these organizations will have to produce evidence that they leverage federal investment. Lobbying will focus less on earmarks and more on what will work, and how.

Annual budgets are so complex and controversial that agency level deliberations must begin 18 months prior to the beginning of each fiscal year. New information may be considered as proposals are revised by agencies, departments, the White House and the two houses of Congress, but at these high levels in the federal government aggregate targets, not integrated strategies, drive decisions. Moreover, political pressure leads to sound bites, not sophisticated analysis. Carefully calculated and justified marginal increases may be sacrificed in favor of powerful Members’ initiatives that lack evidence of feasibility or impact. Sexy ideas are winners for elected officials eager to point to evidence of their leadership. Good management, on the other hand, requires tradeoffs that are difficult to explain and politically disastrous. So the President and Congress avoid tradeoffs by delegating cuts and retaining the discretionary spending authority. Agencies have to maintain old programs that may never work while being pressured to

\textsuperscript{65} Who wins and who loses with each incremental change is critical to the calculation of whether it is likely to occur at all and if so, what path it takes (North 1990:83-84, Ch. 11).
implement initiatives they may not know much about (or believe will work). Congress and the Administration claim credit for investments and blame the bureaucracy for inefficiencies and ill effects – as if their decisions should be judged by intentions alone.

Thanks to Congressional micro-management, agency heads are typically stuck with implementation issues such as timing, coordination, unintended consequences and reporting. Under the Relaxed scenario, the most harmful effects may be alleviated via discretionary budgeting. So empowered, the wise agency head will seek out interest groups’ assistance to balance Administration priorities and legislative concerns. Citizen groups likewise seek to influence executive policies they might otherwise have to ask legislators to reverse. Ideally, the most knowledgeable parties (C and M) arrive at the right balance of politics and practice informally and details no longer consume so much of elected officials’ and executives’ time.

Hearings may lose some of their drama (accusations of incompetence or dodging the democratic process) if C-A and C-M relationships evolve from coercion toward collaboration. Some oversight can be delegated informally. Dissatisfied interest groups will still “tattle” on agencies but the shift from Congressional meddling as a routine to an exceptional step is profound. Congressional oversight has drifted far from its intended role because even as the federal government has become large and complex, its laws are prescriptive. Congress makes the President pay dearly for any perceived failures to execute its expressed will. There is nothing wrong with punishing willful violation, but frequently the real problem is legislative fantasies of trouble-free implementation. Committee chairmen will enter the spotlight, regardless, but they would rather look
successful than mean. If they were to simplify expectations while encouraging key constituents to work directly with agencies on continuous marginal improvements, they might have more opportunities to celebrate progress than to highlight embarrassments.

Complexity is a double-edged sword. In an adaptive environment, increasing complexity is associated with growth because it means more options; change is easy and unforced, in part because relative values are clear. In a political bureaucracy, however, increasing complexity usually leads to additional constraints that create tension, increase uncertainty and stifle productive innovation (Wilson 1989:149, 153, 227-229, 341 and Downs 1994:Chs. XV-XVI). The solution is to loosen the ties within the organizational structure that cause allergic reactions to complexity. The federal hierarchy is characterized by fixed elements and involuntary relationships, thus improvements are limited to changing the quality of connections rather than their number and identity. In other words, agency heads and program managers have no exit option, so isolation or conflict results in dysfunction (as in the Austerity scenario). The situation calls for a rule structure that induces a different reaction to change on both ends. Success of the new regime would be indicated by increased tie strength.

Following the economic principle of marginal cost analysis – concentrating on areas with the greatest apparent opportunity cost (Eucken 1950:281) – the bottleneck or sticking point appears to be at the agency head node, which is more connected than others. More importantly, this is where policy and data intersect – and both matter.

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66 The bureaucracy is literally in chaos, the extreme of complete connectivity (as discussed in Chapter 3).
67 Transaction cost analysis – comparing costs of planning, adapting and monitoring task completion under alternative governance structures – applies conceptually but, as mentioned in Chapter 2, is impractical in government due to information problems (Williamson 1996:58, 237).
Nodes above this level (citizen groups, members of Congress, the President and his Cabinet) tend to focus on policies at while ignoring implementation challenges or empirical data. Career civil servants have been known to exaggerate difficulties and blame resource limitations while ignoring their own data. Agency heads might bridge this cultural divide if their hands were not tied by strict legislative constraints that specify budget authority by function and geography as well as numbers of staff (FTE).

A Congress reluctant to grant the President line-item veto authority will certainly not give it to his appointees. However, suppose Members come to recognize that America’s global power is threatened by its own momentum – that we must adapt to a world that is changing with or without us. Intrigued by the concept of governance as a process of adaptation, not control, they agree to try something very different on a limited scale – granting agency heads discretion over allocation of 5% of each appropriation. No item could decrease by more than 5%, but cuts could be combined to offset increases of any amount to authorized activities. The resulting KH illustration of this scenario is depicted in Figure 11 (Relaxed), which follows this discussion.

Upon approval of such a change, all agents make strategic adjustments. Executive branch budget requests may insincerely exaggerate needs and promises, and Congressional committees may preemptively raise or reduce appropriations. Despite such games, the capability of directly implementing Administration policies and adjusting to real time information has immediate impact on the pace and quality of

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68 This happens to resemble a request by President Bush in his proposal for creation of the Department of Homeland Security to allow transfer up to five percent of any appropriation in any fiscal year to other appropriated accounts with notice to the relevant Congressional committees (approval not required). It was rejected because Congress considered it an unconstitutional intrusion on their power of the purse (Relyea 2003:619-20).
decision-making. Agency heads caught between the rock of legislative constraints and the hard place of (often conflicting) superior and subordinate expectations are treated with more respect. Competition for their favor increases cooperative behavior vs. the baseline, since there is greater opportunity for negotiation.

At the agency level, the Relaxed scenario promises greater transparency and accountability that may be costly in the short run but should ultimately improve decision quality (as measured by output and outcome indicators). Five percent may seem timid; however, when the total discretionary budget approaches $1 trillion, the stakes are very high – roughly $50 billion.⁶⁹ Moreover, the default budget is based on maintenance of current services, the cost of which is estimated using “built-in” increases to salaries and other expenses that reflect official economic assumptions.⁷⁰ In a culture where increases of several percent are considered necessary to tread water, a cut of 5% is considered austere (as demonstrated in the Figure 9 scenario). No one likes closing offices, forgoing opportunities to fill positions, and having insufficient funds to reward or promote staff.

Under the baseline scenario, managers resent but do not fear a request from the Administration to cut or eliminate their programs because they know allies on Capitol Hill will not hesitate to rain on the President’s parade. Under the new rule, their programs face cuts of up to 5%. Under such circumstances, even the most stubborn bureaucrat may hedge his bet by working with the agency head to minimize the damage.

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⁶⁹ The U.S. budget of about $3 trillion is mostly military or entitlement spending (mandatory, in budget-speak).
⁷⁰ Efficiency gains are not typically included.
Good ideas that did not survive or surface in time for the budget battle may find legs in the internal competition for discretionary spending. This is a boon to small programs, for which a small percentage reallocated from larger programs could be substantial. Favoritism will be hotly contested, so evidence of coherent planning and improved results definitely help – at least as a defensive measure. Even if an initiative has the ear of the executive, “happy talk” will not suffice because involuntary contributors (stakeholders of competing programs) will relentlessly attack the decision and encourage their champion in Congress to characterize it as an abuse of privilege and publicly flog everyone associated with the incident.
Figure 11 – Relaxed
In Figure 11, total tie strength is virtually equivalent to the Baseline (103 vs. 100). However, egocentric tie value totals indicate broad, significant effects beneath the surface. This confirms the expectation that it shifts power – primarily reflecting increased uncertainties regarding program budgets. It also suggests “healthier” competition because aggregate stability compares favorably with the polarization observed in the Austerity scenario (splintered ties with total value of 53 – barely half as large). Costs and benefits require more detailed analysis. The first inference that can be made is that greater choice induces adaptation. Of 20 relations, 7 were devalued in this scenario, while 9 increased and only 4 had no net change.

As for who gains and who loses, in the Baseline scenario (Figure 8) C2, H, and S enjoy strong relations compared to the bureaucrats (A and M). For the former, all relations are positive and some (C2-H and C2-S) could not be stronger. Agency heads are isolated from one another due to rivalry. They are ignored or mistrusted by superiors and subordinates alike except where a favored program in their portfolio is concerned. Program managers may have negative total tie values and exhibit indifference or hostility to all but the interest groups they serve.

What changes in the Relaxed scenario? Out-of-favor programs lose even more ground but others gain as appointees use their discretion to spend more on programs favored by the Administration. Presumably, they are savvy enough to avoid provoking Congressional retaliation. It is one thing for the President to submit a budget everyone knows will be virtually ignored and quite another to act in defiance of Congress. Paybacks can be painful. The power shift from legislative to executive is apparent in
Table 4F. The biggest gainer is the pet program M2b and the biggest loser is the Senate, which is controlled by the party opposite the Administration.

Table 4F – Relaxed tie strengths

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Asymmetry is much higher than in the Baseline (111 vs. 84) because budget competition has intensified. Most interesting is the AI,2-M2c relationship, in which tie strength is unchanged at -2 but the agency head is drooling over M2c resources (6 vs. 2) and M2c is making a run for it (-8 vs. -4). There are several other examples of competitive effects (AI-AI,1; AI,1-AI,3; and M2b-M2c).

Performance information did not make much difference. Budget discretion made a big difference but exaggerated political conflict. Perhaps the sum will improve upon the two isolated effects. In Figure 12 the Relaxed and PART modifications are combined, creating the Accountability scenario. In theory, performance information may

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71 In this model, mildly positive or negative link weights indicate passive cooperation or resistance, while strong weights (absolute value of 5+) indicate active engagement or competition.
be used to justify discretionary reallocations, with the effect of winning support from legislators and providing an incentive for improving program performance.

**Accountability (PART + Relaxed)**

Studies of performance budgeting indicate the Executive is using PART information, despite its irrelevance on Capitol Hill:

PART scores have a statistically significant impact on budget decisions within OMB. We find that PART scores have a larger impact on small and medium sized programs than on large programs. We also find that the “results” component of PART scores has a smaller impact on budget decisions than the “program purpose” component, a finding which tends to contradict the goal of performance budgeting to redirect resources to programs that produce results.

The relative unimportance of the “results” component may be due to the lack of good outcome measures for most programs in PART (Gilmour 2006a:169). The vast majority of programs recommended for termination were those with low PART scores. Evidence from the other analyses of the study shows some degree of correlation between PART and program budgets as well. While variances in changes in funding levels are large, there is a consistent pattern of higher PART scores and more positive budget outcomes and vice versa with lower PART scores (Shen 2008:16).

These findings support the KH model valuations provided in Figure 12.
### Figure 12 – Accountability

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Total: 111
As expected, AI,2 makes out well under this set of rules and information. The tie value total is 41, equal to the PART figure and far greater than the Baseline comparable total of 25 (see Table 4G). Comparison of the link weight components reveals that all of the increase is on the AI,2 side of the ties; the difference of 17 (from 16 to 33) exceeds the total gain of 16. AI shares the benefit of increased discretion and positive results since he is in a power position relative to AI,2. M2b and M2c also gain, the former from the budgetary flexibility and the latter from a positive performance rating. Executive flexibility weakens the opposition party in Congress (in this case, the Senate), which could be a good thing if they have prevented improvements. Congressional dominance may be desirable when the same party controls both houses, but hobbling agencies is a bad habit that punishes citizens of all persuasions. S still enjoys better relations than anyone in the Administration below the Cabinet level and fortunes could change in the next election. Despite these rule changes, the House and citizen groups remain in another league. Asymmetry analysis bears little new fruit.

Table 4G – Accountability tie strengths

<table>
<thead>
<tr>
<th>Node</th>
<th>Tie total</th>
<th>Avg.</th>
<th>Total vs. 8</th>
</tr>
</thead>
<tbody>
<tr>
<td>AI</td>
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<tr>
<td>AI,2</td>
<td>41</td>
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<td>16</td>
</tr>
<tr>
<td>M2a</td>
<td>-12</td>
<td>-3.0</td>
<td>-5</td>
</tr>
<tr>
<td>M2b</td>
<td>18</td>
<td>4.5</td>
<td>9</td>
</tr>
<tr>
<td>M2c</td>
<td>13</td>
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<td>C2</td>
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<td>-10</td>
</tr>
<tr>
<td>H</td>
<td>28</td>
<td>14.0</td>
<td>-4</td>
</tr>
<tr>
<td>S</td>
<td>13</td>
<td>6.5</td>
<td>-7</td>
</tr>
</tbody>
</table>
From a systems perspective (e.g., tie strength total and asymmetry), the Accountability scenario appears no better than the baseline. However, upon closer inspection, it becomes clear that many baseline values represent inefficient, unhealthy dependencies that are replaced with more productive relationships in the new institutional structure. Tie values that increased most were inside the agency \((AI\text{-}AI,2 +4), (AI,2\text{-}M2b +5), \) and \((AI,2\text{-}M2c +7)\); reducing the gain were interest group ties \((M2a\text{-}C2 -6), (C2\text{-}H -4), \) and \((C2\text{-}S -4)\). Agencies’ discretion and performance ratings lead citizen groups to increase exchange of ideas and experiences with management and focus less on appropriations. This can help improve cost-effectiveness of spending at any level, whereas resource-oriented lobbying can lead to wasteful spending if agencies are not consulted regarding how the new can best augment the old.

**Lean (Austerity + Accountability)**

The Lean scenario superimposes the Austerity condition (5% cut at the department level) on Accountability – combining all three variations from the Baseline. The ties in Figure 13 resemble those in Figure 9 (Austerity) far more than those in Figure 12 (Accountability) as the isolating effect of competition for resources dominates positive performance effects. Total value is slightly higher here than in the Austerity scenario (62 vs. 53) because agency heads and the high-performing agency (M2c) enjoy net benefits from budget discretion and the PART rating.
Figure 13 – Lean
Table 4H shows that M2a is even worse off than under the Austerity scenario and that overall, C2, H and S relationships chill. S has even less reason to cooperate with AI,2 when the only program he likes (M2a) is sure to be cut even more than under Austerity conditions. H is blamed by C2 for his party’s cuts, and he can do less about it given AI,2’s discretion. As in the comparison of the Accountability scenario to the baseline, significant positive effects of flexibility and PART data are within the agency. The “goat” (M2a) suffers, but the pet (M2b) fares no better or worse and the other three are much better off.

<table>
<thead>
<tr>
<th>Node</th>
<th>Tie total</th>
<th>Avg.</th>
<th>Total vs. 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>AI</td>
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<td>M2c</td>
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<tr>
<td>C2</td>
<td>90</td>
<td>15.0</td>
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<td>H</td>
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<td>S</td>
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**Summary**

Figure 14 plots the tie value totals in each of the preceding discussions to summarize comparisons of connected and isolated elements. Dominance of citizen interest groups is even clearer. In this illustration, it becomes apparent that they remain well connected under any scenario. Congressmen, who do have enemies and are
accountable to voters, have more balanced relationships, with total valuations comparable to those of their executive counterparts. Their connectivity is similar to C2, though, in that it varies little from one scenario to another relative to Executive branch players. M2a, the small out-of-favor program, is miserable regardless of the rule structure. For other bureaucrats, however, there are clear and significant differences. Relaxed and Accountability conditions improve connectivity for the other four agents, with the latter a slight favorite.

Figure 14 – Tie strength summary
What do these six hypothetical scenarios tell us about the hypothesis:

*Accountability for results can improve the effectiveness of federal programs only if accompanied by greater flexibility to allocate resources?* Assuming policies are meant to be implemented and that performance measures mean anything at all, there should be prospective and retrospective connections between policy and performance data. I suggested that the federal government’s formal and informal rules do not promote incentives for creating or enhancing such connections because the mirage of control maintains traditional bureaucratic “stovepipes” that defy coordination. In other words, control is necessary but not sufficient for effective government. Is there a tradeoff between control and coordination?

Patterns in the KH relationships may offer a partial answer. First of all, control is the primary concern of policymakers; it is propagated by power (e.g., votes, legislation, appointments, promotions, and official guidance). Coordination describes peer and subordinate interaction, which can include policymaking but applies more often to compliance, particularly in implementing policies. Each tie in Figures 8-13 has control and/or coordination link components, with the hierarchy determining which element plays one role or the other. For C2 and AI, all links (their side of the connection or tie) are of the control type; S, H, and AI,2 have a balance of the two and the program managers (M) have only coordination links. Sorting the links for each of the six rule scenarios provides value coordinates that are plotted in Figure 15. The arrow indicates that higher values on both link types contribute to effectiveness.
Two things are readily apparent: 1) Budget cuts lead to discoordination and 2) Control outweighs coordination under all six scenarios. Neither of these are surprises. Resources are the lifeblood of each agency and program and the political facet of decisions is and will remain dominant. Control values are 3-5 times as high as coordination values for the four “normal budget” scenarios even though only 14 of the 40 links are on the control side because average valuations for control relationships are much higher.

Loss of control under either of the tight budget scenarios is significant, and it is accompanied by collapse of coordination, especially in the absence of flexibility and performance information (Austerity as opposed to Lean). Loss of coordination is a direct result of resistance to cuts in funding. The Lean advantage over Austerity in coordination
value is explained by the net positive performance rating; some of the program managers have evidence that might mitigate their losses. Control drops because it’s unpleasant business (affecting subjective valuation of all relationships), because the fact that it’s Administration policy doesn’t make a broad sacrifice any easier to swallow, and because the budget battles consume energy and time that have real impact on management of other policy priorities.

Flexibility, performance ratings and accountability reforms all improve significantly upon the low coordination baseline. I make no claims based on the absolute differences. Qualitatively, however, their positions on this grid are worth considering. Control for Relaxed and Accountability alternatives is slightly lower than the Baseline. This is consistent with the notion of a tradeoff. PART improves control too, because the net positive rating of Agency 2 programs gives everyone above the program level bragging rights (enhancing control value); we would expect different results for agencies with below average ratings. Also, let’s not forget that this chart is not an objective measure of effectiveness but an indicator of likelihood based on 1) definitions of control and coordination as major components of policy implementation and 2) subjective valuations of roles and responsibilities in the hierarchy. Performance is affected by attitude, but real gains come from actual choices, not empty affirmations. The shift from PART to Accountability positions in the chart illustrates the cost and benefit of managing for results as opposed to merely tracking them.

The primary finding of this hypothetical exercise is that there does appear to be a favorable tradeoff between control and coordination. The most meaningful comparisons
pair Austerity-Lean and Baseline-Accountability scenarios. Small losses in control value are offset in each case by gains in coordination value at least twice as large. While this is admittedly a function of an assumed net positive performance rating, it seems unlikely that any system of self-assessment would produce the opposite result. We have a general indication that public policy may gain traction – that is, it may be more fully implemented – if marginal resources are allocated at the agency level using program performance information to supplement partisan assessments. This occurs because policymakers will demand justification for variances in expenditure and because program managers will respond to resource incentives.
CHAPTER 5. CASE STUDY: THE DEPARTMENT OF HOMELAND SECURITY (DHS)

Abstractions in the preceding chapter were useful for demonstrating how a model of complex geometry can illustrate systemic behaviors, but they beg for application of the method to a real organization. DHS is a natural selection because it is the most complex agency in the U.S. government; its formation and reorganization provide excellent examples of rule changes that significantly affect the structure of relationships as represented in the KH model; and justification for the merger contradicts my thesis. Has consolidation under the new Cabinet level department improved coordination of federal agency security functions? If not, is there an explanation of the experience that emerges from creating a KH model of the organization as a complex adaptive system?

Highly publicized blunders of DHS executives in the agency’s first five years made an ambitious coordination task nearly impossible, as heightened expectations for a broad range of services were focused on one Secretary.72 There is evidence beyond the popular media, however, that decision-makers may have underestimated the challenge of achieving meaningful coordination of operations. My survey of the literature on DHS reorganizations and management found over two dozen studies with commentary on the

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72 “[DHS] has been the focus of enormous public scrutiny, either because of its highly visible responsibilities – witness recent efforts to secure the southern border with Mexico – or due to a major mission breakdown, such as the response to Hurricane Katrina in 2005. The perception of the department and its ability to protect the homeland is poor, as demonstrated by surveys of both the public and DHS employees” (NAPA 2008:xiii).
organizational structure and management of the agency. Most of them acknowledge progress but quickly get down to the business of diagnosing what was wrong with the consolidation plan and/or its implementation. Authors direct numerous suggestions of what should be done differently toward Congress, the President, and appointed executives.\footnote{I found considerable support for my notion that the social network is a critical factor in design and operation of government organizations.} The next three sections document the proposals and debates surrounding creation of DHS and cite findings of the Government Accountability Office, Inspectors General and academics that analyze the real control and coordination problems identified in the aftermath. The rest of the chapter describes how the KH model can help us understand these issues by focusing on systemic features and critical relationships. The KH framework will be applied to what is undeniably a complex system to demonstrate by a tangible example that \textit{accountability is a process, not a rule}. Imposition of a new hierarchic structure was a solution to control and coordination problems only if one assumed that sharing of knowledge and joint decisions would ensue. In reality, for reasons discussed at some length in previous chapters, the bureaucracy reacted in predictable fashion – by fighting to protect perceived turf and traditional methods.

\textbf{Good Intentions}

The G.W. Bush Administration justified creation of the newest federal department by assuming consolidation of agencies with common goals and information needs would...
realize economies in asset utilization, grant administration, information technology, research spending, and overhead (Bush 2002:17). A focused mission, unified structure and Cabinet level accountability were supposed to make Americans safer. Drawing on the (successful) post-World War II merge of armed services into a new Department of Defense, the White House claimed coordination between the 100 government organizations with security responsibilities would improve if the organizational structure was more rational (Bush 2002:1, 6-7). The reorganization of DHS agencies, which was intended to enhance control and coordination, provides an extraordinary opportunity to test the explanatory value of the KH approach and the hypothesis that flexibility is critical to the success of accountability as a means of improving effectiveness.

Homeland security concerns were prominent prior to the attacks of September 11, 2001 that made significant changes to national policy imperative. In 1999, Secretary of Defense William S. Cohen chartered the Commission on National Security in the 21st Century (the Hart-Rudman commission) to develop a strategy for protecting U.S. national interests in a global security environment. That same year, Congress passed legislation creating the Advisory Panel to Assess the Capabilities for Domestic Response to Terrorism Involving Weapons of Mass Destruction (Gilmore panel). In November 2001, an article in Government Executive magazine on the national security reform debates summarized these groups’ contributions:

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74 It should be noted that consolidation of armed forces pursuant to the National Security Act of 1947 involved numerous tradeoffs and turf battles that continue to this day (Kettl 2004:55).
75 Former Senators Gary Hart and Warren Rudman were co-chairmen.
76 Former Virginia Governor James S. Gilmore III chaired the panel.
Both the Gilmore panel and the Hart-Rudman commission concluded that federal agencies were poorly organized to prevent terrorism or manage the aftermath of terrorist attacks. But they came to very different conclusions about how the federal government should be made more responsive. The Hart-Rudman commission strongly recommended that Congress create a new agency devoted to homeland security and border control; the Gilmore commission urged the White House to create an office to coordinate homeland security activities that cross various federal, state and local agencies (Peters 2001).

The President and Congress expressed clear preference for centralization in choosing to follow the Hart-Rudman commission’s recommendation. The preface to the commission’s final report emphasized its charter to think beyond immediate needs: “That meant searching out how government *should* work, undeterred by the institutional inertia that today determines how it *does* work” (Hart-Rudman 2001:v – emphasis in original). Does this mean they assumed implementation was a problem to be solved by the bureaucrats? Unless we understand how existing institutions work, how can we reasonably expect to design better ones? Resolve may carry us far, but it would be nice to know the direction. “The problem with reorganizing is that it doesn’t improve the systems of the agency. It just changes where those potentially dysfunctional systems reside” (Miller 2006:18).

It is not merely in hindsight that politicians appeared overly enthusiastic about the potential for simplifying control and coordination through consolidation. Thirty years

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77 Other motives may have affected the magnitude but not the nature of the reorganization plan (Cohen 2006).
earlier, Donald Warwick conducted a case study of ambitious reorganization in the State Department. The 1965 reorganization was very difficult but initially showed signs of success in that hierarchy and rules were reduced without a loss of operating efficiency. However, over the following decade, each of the major changes were sabotaged or dismantled. He wrote:

If there is a single conclusion to be drawn from our observations, it is that a reorganization plan pegged only to considerations of rationality is doomed to failure. Even worse, it will often aggravate the very maladies it was designed to cure. Almost any significant change in the executive bureaucracy touches the interests and self-definitions not only of the employees involved, but also of related congressional committees, constituency groups, and interested publics.

The inertia of existing hierarchies and rules, he said, made it highly unlikely any larger debureaucratization effort would be undertaken – citing Congress as the barrier to progress in this regard: “Until the Congress takes steps to reduce the balkanization of power within its own bailiwick, it is improbable that much will be done about the executive bureaucracy to which it is tied” (1975:37, 205, 213-14).

One example of how the Hart-Rudman commission apparently assumed away coordination challenges appears in the section of its report on organizational realignment:

The President should propose to Congress the transfer of the Customs Service, the Border Patrol, and Coast Guard to the National Homeland Security Agency, while
preserving them as distinct entities. Bringing these organizations together under one agency will create important synergies. Their individual capabilities will be molded into a stronger and more effective system, and this realignment will help ensure that sufficient resources are devoted to tasks crucial to both public safety and U.S. trade and economic interests. Consolidating overhead, training programs, and maintenance of the aircraft, boats, and helicopters that these three agencies employ will save money, and further efficiencies could be realized with regard to other resources such as information technology, communications equipment, and dedicated sensors. Bringing these separate, but complementary, activities together will also facilitate more effective Executive and Legislative oversight, and help rationalize the process of budget preparation, analysis, and presentation (Hart-Rudman 2001:15-16).

The one-page discussion that followed this claim focused on the agencies’ roles in securing our borders and their limited resources – not on identifying synergies, describing the effective system envisioned by the commission, or explaining how this “shotgun marriage” leads to improved oversight and budgeting.

The July 2002 blueprint, National Strategy for Homeland Security, did not discuss the process of reorganization; it merely identified the agencies to be included in the new department and what their roles would be. Coordination was mentioned only in the federalism context as something that “must occur” (U.S. OHS 2002:13-14). Evidently,

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78 This is recommendation number 3 of 50. The plan for DHS was far more ambitious.
79 Table 5a shows evolution of the organizational structure of the 7 largest agencies from 2002-08.
the Administration thought placing 22 federal agencies under an umbrella organization with clear marching orders would eliminate “stovepipes” and ensure cooperation at the federal level. The only coordination problem recognized in the planning document was that of getting state, local and private organizations’ cooperation with the federal agencies and with one another.

Others were not so sanguine. One scholar noted that creation of DHS was just the latest battle in a long struggle for control of organization of the executive branch between Congress and the President – a battle the President appeared to have won (Relyea 2003:602).80 Others questioned the new department’s ability to articulate any single goal that can be translated into specific tasks for its components (Lehrer 2004:84) and its ability to focus their activities on a common objective:

[T]he proposal suggests a typical Washington D.C. response to any crisis – rearrange boxes on the organizational chart and add bureaucracies…. The argument for the new department seems to rest on the implicit assumption that effective action depends on bringing into a single entity as many of the HLS-related activities as possible…. The management challenges of such an organization will be colossal. Even a whiff of reorganization paralyzes a government organization, as employees slow down or stop work altogether to speculate about reductions in force or lateral transfers…. Where hierarchical and horizontal divisions are strong, free flow of information is obstructed. Different

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80 This suggests that national security concerns served a convenient may have been secondary as a motive for the reorganization. It also serves as an example of the standard bureaucratic power grab. We know now that while the President may have seized control, he failed to exercise it; reasons for that failure are the focus of this chapter.
sectors of the organization often operate on the basis of different pictures of the total situation, pursuing subunit goals almost as ends in themselves. These distinctions create political systems or unique cultures within the organization. The DHS will not create this complexity, but will inherit it with every government agency that it acquires (Wilson 2003:11-12).

The history of executive branch strategic planning efforts is not encouraging. Setting priorities and translating overall goals into specific implementing guidance is intellectually difficult, even with the best of intentions. Moreover, departments and agencies strongly resist defining such a strategy for fear of undermining their own prerogatives and budgets. Left to staffs charged with protecting departmental equities, the result of such efforts tends to be a listing of broad and multiple goals. Only department heads are empowered to make the serious choices and tradeoffs, and they tend not to have the time – or, more often, the inclination – to participate (Davis 2002:11).

Finally, in the rush to appear decisive, the Bush Administration neglected analysis of what problems might be solved by the reorganization and what new problems the new organization itself might cause. More precisely, the proposal “did not seem to deal with preliminary indications of what the major problem seems to have been: a lack of coordination between and within the intelligence agencies that make up the vast U.S. intelligence bureaucracy…. More bureaucracy means more coordination problems of the kind that seem to have been prevalent in the intelligence community prior to September

In January 2003, just three months after Congress enacted legislation creating DHS, the General Accounting Office (GAO)\(^{81}\) designated the new department’s implementation and transformation as High Risk in its biennial Performance and Accountability Series. GAO did not take efficiency or effectiveness of the reorganization process or the new department for granted, and pointed out that many of the component agencies already had major management challenges. The reorganization plan submitted to Congress in November 2002 was deemed insufficient in its attention to detailed tasks as well as integration and accountability issues (GAO 2003:3, 10).

Implementation was challenging, indeed. In addition to the host of agency and program level problems that were possibly exacerbated by distractions and questions of accountability associated with the merger, the new bureaucracy created numerous positions that invited political maneuvering and patronage that may have contributed to the task’s inherent difficulties. GAO noted that extraordinary turnover at the executive level could impair the Department’s ability to lead agency integration efforts (GAO 2005c:7). As the Administration entered the last half of its last term, others became concerned about imminent vacancy of hundreds of leadership positions. “The upheaval that strikes all organizations during presidential transitions will be magnified at Homeland Security, which has the third-largest workforce of any Cabinet department. And because the department’s primary mission is to prepare for and respond to

\(^{81}\) Now the Government Accountability Office
catastrophes, the magnitude of a terrorist attack or natural disaster during the transition could be compounded.” DHS has a higher percentage of political appointees than comparable federal agencies such as Defense and Veterans Affairs, and – to make matters worse – “Of all the departments in the government, Homeland Security has the most notorious reputation for placing political appointees in jobs over their heads.”

Incompetence and cronyism extend beyond the prime example of FEMA director Michael Brown, who presided over the bungled Katrina response, and two years after GAO expressed concern, DHS was still a “revolving door” for political appointees “whose main strength seems to be loyalty to Bush” (Harris 2007).

Another barrier to progress is Congress’ ongoing feeding frenzy over new funding and stubborn reluctance to restructure its oversight committees:

Congress… has protected prerogative and privilege at the expense of a rational, streamlined committee structure. The result is a Department of Homeland Security that is hamstrung by a system of Congressional oversight that drains departmental energy and invites managerial circumvention…. The changes to the Appropriations subcommittees have proven to be generally successful…. But reforms to the legislative and statutory oversight roles of Congress for homeland security have proven to be woefully insufficient. For example, the House Select Homeland Security Committee has been a paper tiger during the 108th Congress, in spite of sincere leadership. Many of its senior Republican members are Chairmen of other powerful committees with responsibility for parts of DHS, and they have frequently seemed more interested in protecting their own turf than
ceding power to the new Homeland Security Committee. The Senate Governmental Affairs Committee has battled similar vested interests in its own chamber. The leaders of these legacy committees are sincere in their belief that they can more effectively guide the component agencies within DHS that they have long overseen. But ultimately, this fragmentation preserves the rivalries and cultural barriers that the creation of the Department was intended to eliminate; and it prevents DHS from acting as a single, well-coordinated team. The 88 committees and subcommittees that had some amount of jurisdiction over various aspects of homeland security prior to the creation of DHS shrunk to a “mere” 79 after the reorganization in the 108th Congress.... [A]ll 100 senators and no fewer than 412 out of 435 House members currently have some degree of oversight over DHS. The implication of this is clear: Very few members of Congress have any real incentive to acquire expertise on homeland security issues and those who do may have difficulty developing a perspective that includes related concerns beyond their committee’s or subcommittee’s domain.... This fragmentation also creates the conditions for mid-level subordinates to end-run the leadership of DHS leadership, and appeal directly to Congressional committees with which they have long-standing relationships. It allows outside interest groups, single issue lobbies, and government contractors to more easily find champions for parochial interests and pork barrel projects that fall outside the strategic mandate and intent of DHS (Foley 2004:1-3).
Just one example of this is in grant programs administered by the Federal Emergency Management Agency (FEMA). The Department’s Office of Inspector General noted in its most recent report on Major Management Challenges:

> Congress continues to authorize and appropriate funding for individual grant programs within and outside of DHS for similar, if not identical, purposes. In total, DHS manages more than 80 disaster and nondisaster grant programs. For disaster response and recovery efforts, we have identified 36 federal assistance programs that have the potential for duplicating DHS grant programs. In addition, the internal DHS reorganization has compounded these issues, as overlapping jurisdictions and systems must be reconciled (OIG 2008:15).

One follow up study by the Government Accountability Office found that the early critics were right that changing the bottle would not improve the taste of the wine:

> A number of management challenges similar to those found at INS have continued in the new organizations now responsible for immigration enforcement functions, [including] a lack of clearly defined priorities and goals; difficulty determining whom to coordinate with, when to coordinate, and how to communicate; and inadequately defined roles resulting in overlapping responsibilities, inconsistent program implementation, and ineffective use of resources (GAO 2005e:1).82

With respect to potential restructuring, reorganizing an agency or function to better align it with the mission and strategic planning process is desirable,

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whereas reorganizing mainly to address underlying weaknesses in supporting systems and processes, such as a lack of coordination and cooperation among units or a lack of guidance relating to operational activities, might not be productive. As we have seen to date, reorganizing immigration and customs functions, without fixing existing problems with underlying systems and processes, has not resolved long-standing management issues. In addition, ICE and CBP may not be able to resolve some of these challenges alone if they are affected by DHS department-wide management initiatives and developments (GAO 2005e:15).

Another GAO study found additional examples of lost opportunities to enhance and sustain collaboration among the federal agencies:

[S]ome DHS components have established a variety of internal and external working agreements, memorandums, and in the case of the Joint Field Offices, standard operating procedures. However, DHS’s Operations Directorate, which is responsible for coordinating operations, has not provided guidance on how and when such agreements should be used to improve collaboration among the sponsoring and participating components at the operations centers we reviewed. Nor have any of these centers documented goals or joint strategies using these or other types of agreements (2006:6-7).

There are multi-agency operations centers that lack common goals and joint strategies; clearly defined roles and responsibilities; compatible standards, policies, and procedures for information networking; consistent staffing
assessments; prepared mechanisms to monitor, evaluate, and report on the results of collaborative efforts; and reinforced agency accountability through agency plans and reports. Our previous work has shown that these are all critical components in enhancing collaboration among federal agencies (2006:34).

DHS and its stakeholders recognized that they did not get it right the first time and they proposed solutions that involved further reorganization. A joint task force convened by the Center for Strategic and International Studies and The Heritage Foundation examined the new department’s effectiveness and concluded that it “is weighed down with bureaucratic layers, is rife with turf warfare, and lacks a structure for strategic thinking and policymaking.” Major recommendations included further restructuring to add an Undersecretary for Policy while eliminating the Border and Transportation Security (BTS) and Emergency Preparedness and Response (EPR) directorates (Carafano 2004:7-8). In February 2005, The Senate Committee on Homeland Security and Governmental Affairs requested a recommendation from the DHS OIG as to whether CBP and ICE should merge. Numerous divisions were identified in the subsequent review, and in the November 2005 report, OIG concluded that “a consolidated border security agency with a single chain of command would better coordinate mission, priorities, and resources to facilitate a comprehensive border security program.” The Secretary’s Second Stage Review, a review of the entire department’s organizational structure, came to a different conclusion – that eliminating the BTS directorate and having the two agency heads report directly to him would “streamline management and increase accountability.” OIG did not consider this sufficient and listed
14 recommendations to overcome interagency coordination and integration challenges. In the April 2007 follow-up report, OIG noted that “both components have made progress in defining respective roles and responsibilities and how personnel of each organization are to work together. However, communication and cross-component understanding of roles and responsibilities do not appear to have reached all levels of CBP and ICE” (OIG 2007:2-3).

Chronic Challenges

Five years after its creation, DHS is still struggling with reorganization issues (GAO 2007a:45). Their Inspector General (IG) said that DHS “still has much to do to establish a cohesive, efficient and effective organization,” and cited as an example coordination of CBP and ICE border control efforts. “Jurisdictional, operational, and communication gaps exist between the two organizations that must be addressed by DHS leadership” (OIG 2008:1, 25).

At the request of Congress and DHS the National Academy of Public Administration convened a panel to investigate issues confronting the Department in the 2008-09 Presidential transition and provide guidance. Their report included the following conclusions and recommendations regarding integration and coordination of its agencies:

The Panel believes that there is more work to do to overcome resistance to DHS headquarters’ role in integrating the work of the individual components. This was one of the founding goals for the department. Second, the Panel notes the
problems created for DHS by the multiple congressional oversight committees to which it reports. The Panel found that this oversight has stretched DHS resources, made it difficult to enact important legislation and created a potential for policy disarray.

The Panel believes that the department’s key components still largely operate as “stand alone” entities, although important steps are being taken at headquarters and in the field to improve intra-departmental coordination and collaboration.

Among the factors that combine to make integrating DHS component activities one of the most daunting tasks in government are the mix of organizational cultures (which include some of the oldest and youngest federal agencies); the reorganizations and multiple levels of Executive and Legislative Branch oversight; the mission challenges highlighted by the response to the Gulf Coast hurricanes of 2005; and the problems dealing with illegal immigration and border security.

Finally, the panel noted that while DHS has taken steps to encourage executives’ perception of a unified department, “the headquarters role remains unclear,” and independence of the department’s seven primary operational components raises questions about DHS’ ability to take a strategic approach to managing them (NAPA 2008:iv, xv, 15-17).

A report from the Center for Strategic and International Studies (CSIS) focused on shortcomings in the national strategy for homeland security that were carried over to its second edition (OHS 2007). The CSIS report characterized the vision as “diffuse and
disjointed,” noting that it “was not the product of any sort of comprehensive review that examined goals and objectives, assessed current programs and activities, or articulated priority areas and potential trade-offs.” This should surprise no one, since the list of documents that address various aspects of the so-called national strategy is long. Some are inconsistent and even contradictory; this reflects the confusion about roles and responsibilities:

- The National Strategy for Homeland Security
- The National Strategy for Combating Terrorism
- The National Strategy for Countering Weapons of Mass Destruction
- The National Response Framework
- The National Infrastructure Protection Plan
- The DHS Strategic Plan
- The National Preparedness Guidelines
- The National Planning Scenarios
- The Universal Task List
- The Target Capabilities List

In addition, the authors recognize that strategies are of little use if they are disconnected from resource allocation decision processes. “Without a well-understood process for developing requirements for homeland security, specific capabilities cannot easily be linked to the budget process. Capabilities are sometimes identified by specific organizations through ad hoc processes or institutional initiatives, but resistance from
almost any institutional quarter can prevent those proposed capabilities from being inserted into the budgeting system. The lack of a formal validation process to connect requirements identification and budgeting has resulted in a sort of lowest common denominator approach to developing capabilities for homeland security. Only those capabilities on which all stakeholders agree inside a particular federal department, or which can generate sufficient support in Congress, are actually funded” (Wormuth 2008:9-11).

Cindy Williams, a security studies expert, pointed to the critical role of budgets as facilitating or preventing integration of DHS operations, drawing several critical conclusions regarding the Department’s progress in this area:

Proponents of the reorganization hoped that a single cabinet secretary could bring unity of effort across federal efforts to prevent terrorist attacks within the United States, reduce the vulnerability of people and infrastructure to terrorism, and minimize the damage and recover from attacks that do occur. Five years later, the nation’s homeland security effort is anything but unified. Core legacy organizations that migrated into DHS still generally set their own agendas, often with strong backing from supporters in Congress. The same is true for the other departments and agencies with a role in homeland security, whose activities account for fully one-half of federal spending for the overall effort (2008:6).

The DHS staff understood that the legacy agencies would guard jealously what they considered to be their “fair shares” of the department’s budget. The path of least bureaucratic resistance would be to allocate budgets consistent with past
shares of collective budgets. Nevertheless, they hoped that a disciplined PPBE (Planning, Programming, Budgeting, and Execution) process, coupled with rising total budgets and the fluid environment of a new department, would help break the mold of incremental budgeting. . . . A comparison of DHS budgets in recent years against earlier budgets of the legacy agencies reveals that those hopes were not realized, however. Between 2003 and 2007, no more than 2 percent of the DHS budget migrated into or out of the Secret Service, FEMA, the Coast Guard, ICE, or CIS (2008:11-12).

During the programming phase, strategies should be translated at the department level into program and budget reality. That is not happening. . . . The components are largely left to set their own agendas. . . . Constant-shares budgets are symptomatic of a deeper problem within DHS, namely the continued balkanization of the department’s main operating components. Department-wide discussions of crosscutting issues and resource allocation could improve appreciation across the department of mutual and individual challenges, strengths, and contributions. The program review offers a chance for department leaders to engage the components in a unified discussion of choices. Instead, the secretary meets individually with component leaders to discuss the RADs83 (2008:21-22).

This is not just a failure of implementation; the plan itself was flawed. “The 2002

National Strategy for Homeland Security promised that the White House would

83 RADs = Resource Allocation Decisions. The President’s proposal for DHS would have allowed the Secretary to transfer up to five percent of any appropriation in any fiscal year to other appropriated accounts with notice to the relevant Congressional committees (approval not required). This feature was rejected because Congress deemed it an unconstitutional intrusion on its power of the purse (Relyea 2003:619-20).
‘carefully weigh the benefit of each homeland security endeavor and only allocate resources where the benefit of reducing risk is worth the additional cost.’… Instead, White House guidance to the agencies suggests that homeland security spending can grow by a given percentage, and it is generally left to the agencies to determine how to distribute the money among their various homeland security programs.” OMB has not laid the foundation for such an approach: “There is no federal budget function for homeland security. Rather, spending for homeland security is splintered across 17 budget functions.” In addition, too many strategy documents cover various aspects of homeland security. “Thus the strategies become a hunting license for agencies wishing to press their own agendas, rather than an articulation of top national priorities.” Congress’ legacy jurisdictions undermine the Secretary’s ability to align resources to strategy. Williams concludes, “Unfortunately, the nation is not getting two results that experts and policy makers hoped would flow from those changes: spending tied clearly to the nation’s top priorities and unity of effort across the entire federal homeland security establishment” (2008:23, 27, 29, 34, 36).

Managing the Complex DHS Network

The politics underlying management debates, which were covered at length in Chapter 2, are avoided by most of those offering advice for DHS. For example, in a recent study on coordination, GAO suggested a number of practices such as identifying common outcome objectives, aligning roles and responsibilities, leveraging resources, and using GPRA goals and reporting to reinforce accountability. GAO called on OMB to
create another PMA initiative on collaboration and to offer additional standards in its PART guidance (GAO 2005f:4, 30). However, as I have argued, agencies’ coordination failures are not for lack of knowledge on how to accomplish the task. They lack incentives, and unless OMB and Congress link budgets to specific coordination activities – or to outcomes that cannot be achieved otherwise – agencies will pay lip service to the recommendations, initiatives and milestones. The GAO study, like most that focus on activities instead of the crucial context that makes them feasible, had virtually no chance of affecting practice.

The blind spot, I submit, is that most analysts, lawmakers and managers cling to false premises regarding the nature of the organizations involved and their relationships to one another. Fortunately, some experts have identified DHS as a complex network that can be managed, but not as a hierarchy. The lesson from 9/11/01 was that “unless we improved coordination, the nation would likely have another such catastrophe.” Homeland security, then, is fundamentally about “weaving together far more effectively the nation’s existing experts and resources.” It is ultimately very political because no one wants to surrender autonomy, component agencies’ missions conflict with one another, and resource limitations force new goals into competition with existing duties (Kettl 2004:22, 28, 36-37).

A National Academy of Public Administration (NAPA) forum on DHS management of intergovernmental relations identified nine challenges, three of which are
linked to reorganization issues. The Academy recommended that federal authorities work on trust and incentives to achieve cooperation. “Conceptualizing intergovernmental relations by using network theory means that the system should be based on linkages and interrelationships, rather than on hierarchical layers” (2004:5, 10-15). Although the report’s emphasis was on coordination of efforts between levels of government (federal, state, and local), its relevance to the federal community and its inter- and intra-agency networks is clear.

Barriers to inter-organizational collaboration include missions that are at odds with one another; unclear roles and responsibilities; agencies’ need to protect their jurisdiction and control their resources; incompatible procedures, processes, data and information systems; disparate organizational cultures; lack of accountability; mistrust and skepticism; and lack of knowledge of others’ capabilities. In a workshop on building collaborative capacity for homeland security planning, the Naval Postgraduate School presented a number of concepts, including Transorganizational Systems – “coalitional structures whose member organizations maintain their separate identities and disparate goals, yet employ either some formal organization or informal collaboration for joint decision making.” Such systems are generally underorganized and require Transorganizational Development – interventions that aim, via structural changes in roles and procedures, to increase shared norms and values to create predictable behavior. Organizational culture, they said, is widely held to be the major barrier to creating and

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84 Fragmentation characterizes all levels of government, something that was done intentionally (Issue 3); Networks of governmental and quasi-governmental agencies are highly complex (Issue 4); and Limited authority – legal or political – prohibits top-down command and control (Issue 5).
leveraging knowledge assets, which are essential for decision making and effective action. The authors identified DHS as a network and suggested that social network analysis could be useful to identify opportunities for increasing productive sharing of information among its component agencies (Hocevar 2004:i, 127, 136, 152, 160-65).

Other academics pointed to rigid command/control structures as inappropriate, especially for such a large organization with a “rapid response” mission. “Modern emergency management presents a paradox. On one hand, emergency response requires meticulous organization and planning, but on the other hand, it is spontaneous. Emergency managers have to innovate, adapt, and improvise because plans, regardless of how well done, seldom fit circumstances.” Unfortunately, emergency management under DHS has become less collaborative and more centralized. “Greater capacity for command and control is not synonymous with greater capacity for collaboration…. Disasters and fear of disasters also generate a strong desire for hierarchy – somebody to take charge, or possibly someone to be held accountable. Such thinking is inconsistent with the tenets of the field and displays blindness to what collaborative action has accomplished” (Waugh 2006:132, 136-38).

Formation of DHS spoke to policymakers’ desire to achieve stability and fix accountability. However, the idea of top-down coordination in a multi-organizational environment rests on notions that the necessary participants can be identified, that their relationships are well understood, that they can reach agreement on how to alter said relationships to achieve specific objectives, and that authority and means exist to implement such changes. The next phase of DHS reorganization should adopt a
framework that facilitates adaptive management, an iterative process that integrates science and management by treating policies as experiments as they obtain feedback (Waugh 2006: 310-11, 314).

These difficulties could have been predicted and possibly avoided, as evidenced by the early criticisms of the reorganization plan. Skeptics’ intuition and specific concerns were validated by the new department’s performance, and plenty of experts have pointed to structural flaws and even to complex network management as offering solutions. Yet politicians appear to have been deaf to these ideas. I selected this case to demonstrate that traditional assumptions regarding control and coordination continue to be their owners’ worst enemy, because rigid rules and resource allocation prevent coordination, limiting real control to processes and imposing serious limitations on effectiveness. In the next section, the KH framework will be applied to construct a systems view, pre- and post-DHS, and apply findings from the hypothetical illustration to identify structural implications that may illuminate the phenomena already noted.

KH View of DHS – Before and After

The next three diagrams are composites of the major organizations and groups affected by the new Department’s formation as they appeared in 2002, 2003 and 2008. They employ citizen, legislator, and appointee types; managers are excluded to avoid clutter. Like Figure 6 in Chapter 3, these three models include Citizens (C) and the President (P) and use the same node shapes and colors for all ideal types.
To keep the task manageable and focused, only the largest agencies are included. Table 5A lists their names and abbreviations or acronyms used in the diagrams. It also lists two directorates that were created in 2003 but abolished in 2005; agencies are grouped beneath them. In 2002, USCG and TSA were under the Department of Transportation (DOT), INS was part of the Department of Justice (Justice), and Customs and the Secret Service were in the Department of the Treasury (Treasury).  

Table 5A – DHS agencies before and after reorganization

<table>
<thead>
<tr>
<th>2002</th>
<th>2003</th>
<th>2008</th>
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</thead>
<tbody>
<tr>
<td>United States Coast Guard (USCG)</td>
<td>United States Coast Guard (USCG)</td>
<td>United States Coast Guard (USCG)</td>
</tr>
<tr>
<td>Transportation Security Administration (TSA)</td>
<td>Transportation Security Administration (TSA)</td>
<td>Transportation Security Administration (TSA)</td>
</tr>
<tr>
<td>U.S. Immigration and Naturalization Service (INS)</td>
<td>U.S. Citizenship and Immigration Services (CIS)</td>
<td>U.S. Citizenship and Immigration Services (CIS)</td>
</tr>
<tr>
<td>U.S. Customs Service (Customs)</td>
<td>U.S. Immigration and Customs Enforcement (ICE)</td>
<td>U.S. Immigration and Customs Enforcement (ICE)</td>
</tr>
<tr>
<td>U.S. Secret Service (SS)</td>
<td>U.S. Secret Service (SS)</td>
<td>U.S. Secret Service (SS)</td>
</tr>
</tbody>
</table>

For more information, see the DHS Web site (http://www.dhs.gov/xabout/history/editorial_0133.shtm).
Also following the method established in Chapter 3, citizens’ interest groups are assumed to have significant contacts at the agency level but do not directly influence the Secretary. They are grouped by agency; consequently, creation of DHS results in a net increase of one interest group node (from 6 to 7). Legislative relationships are represented by the appropriations subcommittees in the Senate and the House. This has a more significant effect on the model, as 8 nodes representing four committees on each side of the Capitol with authority over the six agencies’ appropriations were replaced by the two new Homeland Security committees. Finally, agencies do not have significant relationships with each other unless they are in the same Department.

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86 The committees and their abbreviations or acronyms used in the diagrams are: Transportation (Transport); Commerce, Justice, State and the Judiciary (CJSJ); Treasury and General Government (Treasury); and Veterans Affairs, HUD, and Independent Agencies (VAHUD). See the Center for Responsive Politics’ Web site (http://www.opensecrets.org/cmteprofiles/).
At a glance, it appears that control and coordination of homeland security must have required extraordinary effort by the White House, management challenges were significant even under the best of circumstances, and pressure from Congress and interest groups must have been overwhelming. No wonder the President sought a “middleman” in the Executive branch and a simplified Congressional committee structure.
What a difference! With DHS, the President’s leverage increased dramatically because he has far fewer committees in Congress to deal with on the same set of budget and policy matters, and he has delegated the formidable tasks of negotiating and communicating policy details to the new Cabinet member. Not much appears to have changed at the agency level except some are one step further removed from the White House due to the Under Secretaries (BTS and EPR) and they now compete for appropriators’ attention. Their new Homeland Security committee contacts may not be thrilled, as they have plenty to learn and they manage at least four times the workload of their predecessors. Individual members may enjoy an increase in power, but such a
radical change likely came at great cost to relationships between agencies and the
Congress. The transition is further complicated by the fact that traditional oversight
authority was retained; Homeland Security subcommittee duties were added.\textsuperscript{87} This may
be seen as Congress’ bid to ensure that the President’s enhanced power did not come at
their expense. For DHS agencies, the burden of serving so many masters surely
contributed to the difficulty of implementing the new management structure. Citizens’
groups are at the top of the food chain, so to speak, and enjoy flexibility. They had to
make new friends but this may have been welcomed as an opportunity.

\textsuperscript{87} These diagrams assume dominance of appropriations committee relationships, and hence understate
the complexity of DHS accountability to Congress.
Figure 18 – DHS in 2008

Elimination of the directorates, given KH assumptions regarding the nature of hierarchical relationships, has the effect of significantly complicating the roles of agency heads – especially those outside BTS. Increased coordination was the objective, but while removing structural barriers may have been necessary, it does not create an incentive. In a bureaucracy, remember, autonomy is a primary goal; therefore, increased expectations and contacts may induce greater investments in defense of territories and harmful competition – not harmonious cooperation.
Zooming in on the Agencies

The next set of (three) diagrams – also following the KH hypothetical method – remove C and P to concentrate on relationships at the agency head level, where policy meets administration and , for better or worse, most change initiatives are destined to succeed or fail. Managers are added for programs identified by the PART; they account for most of each agency’s budget and provide rational divisions at the sub-agency level that are associated with measures of performance. Budget and performance details are added to the model in the next section. The diagrams do not include connections between the programs. Recall that each of the six scenarios in Chapter 4 included just three programs, while the DHS model contains 47. Hundreds of connections would be required to duplicate the method for the entire Department; they are not necessary since this analysis is focused on agency-level relationships.

Link weights (hypothetical subjective valuation of each connection) will not be applied to the agency connections because they would require verification that is beyond the scope of this study. However, given the strong correlation of valuations with structural position in the hypothetical illustrations of Chapter 4, we can justify inferences regarding general attitudes among the real DHS agencies that can be tested qualitatively.
The top half of Figure 19 is identical to its DHS counterpart, Figure 16, except for the nodes and ties associated with Citizens and the President. Another minor difference is the color of appointees’ nodes (plum – for the Plum Book!) to preserve contrast when PART ratings are applied in the next section. The bottom half indicates where programs – those on the current PART schedule, for convenience – would have resided. Since the
reorganization was a high-level endeavor, it is reasonable to assume fairly constant program level authority\(^\text{88}\).  

Figure 20 – DHS agencies in 2003

Comparison of Figure 20 with Figure 19 reveals a couple of obvious effects of the DHS consolidation: concentration of power in the Senate, the House, and the Office of

\(^{88}\) Administrative layers were added for TSA, Treasury and FEMA. Automation programs in CBP and ICE, and the Federal Protective Service (ICE) were created in DHS. Agencies may have made other changes, but they should not affect this analysis. For TSA, 5 programs are organized under Security Operations (SecurityOps) and another 5 under Transportation Sector Network Management (TransNet). In 2002, directors of Customs and Secret Service reported to the Treasury’s Deputy Secretary for Enforcement (Enforcement) and FEMA’s 7 grant programs were under its Preparedness, Training and Exercises Directorate. One program in TSA and a couple in FEMA outside of the aforementioned bureaus were headed by political appointees; their nodes are colored accordingly.
the Secretary; and new connections (within BTS) between several agencies that were formerly separated by departmental “stovepipes.” It did not take long for authorities to realize that the BTS and EPR directorates interfered with efforts to manage agencies’ efforts. Agency heads now report directly to the Secretary and theoretically find it easier to communicate directly with one another (see Figure 21).

Figure 21 – DHS agencies in 2008

If in fact there was no loss of knowledge or trust in the transition and these organizations shared all relevant information with one another as indicated by the new structure, the new arrangement would offer real opportunities for improvement of control
and coordination of homeland security activities over the 2002 set of relations. However, as demonstrated in Chapter 4, we cannot assume that all connections add value in a federal hierarchy; some are burdens to one or both parties. If reorganization replaces ties that bind with ties that add value, it may enhance control and coordination. If it does the opposite, paralysis may obtain. We cannot answer this for DHS by looking at their organization charts or even at the six stylized diagrams. Somehow, we need to distinguish the good from the bad and make a before/after comparison.

The KH analysis of a hypothetical agency found that “control” relationships (those in which the subject element enjoys a dominant power position) are strongly preferred to “coordination” relationships (those in which the same party has a subordinate or peer role). In the Baseline scenario, for example, values of the 14 control links (one side of each tie) totaled 89 (avg. 6.4), while values of the 26 coordination links totaled just 11 (avg. 0.4). The structure of organizations is not determined democratically, of course, so even though agency heads are arguably the most critical elements in the system, we should be careful about placing too much weight on their likes and dislikes. On the other hand, if one expects people to act as responsible agents and to independently address barriers and opportunities to progress in achieving given policy goals, it is impossible to escape the fact that public administration is indeed like doing the tango; it takes two (at least). This means, as explained in the Chapter 3 methodological discussion, that a realistic view of an organization’s operation as a complex system must explicitly recognize the effects of resistance in a bilateral relationship. We can do this by using total tie strengths instead of link weights. Agency heads’ generally low
coordination values (link weights on their side of the connection) for ties with superiors, citizens and legislators are offset by those parties’ high control valuations for the same connections. Ties with peers (coordination type) are slightly negative and symmetrical. Control relations are positive but in some cases strongly negative offsetting valuations render the connections unproductive (negative net value).

Valuations of agency head ties to department head AI (both sides) varied from -9 to 22 and were correlated with Epolicy (the Administration’s rating of the agency generally as favorable, neutral or unfavorable). Peer relations were slightly negative (-2 to -4). Interest group links (C2) were strong (10 to 16). Naturally, the strength of ties to Congress depends on whether the President’s party is in power. For AI,2, the connection to the House was valued at 12; with the Senate, 0. However, the apparently neutral overall rating masked asymmetric link values of -5 and 5. Control relations with the three programs were weakly positive.

These dispositions seem valid for DHS – with a couple of twists. While Epolicy varied in the fictitious scenarios, it is assumed favorable in every instance for DHS since President Bush was strongly committed to the mission and to formation of the Department. This implies that all (political appointee) agency heads should place a positive value on relationships with their superiors. They’re “on a mission,” presumably share beliefs and goals and cannot succeed without mutual support. Publicly, they would say the same about peer relationships, but I do not find that credible. Based on the egocentric KH criteria – which will trump “team spirit” for ambitious, competitive people likely to be appointed to head large federal agencies – AI agencies’ peer relationships
were estimated to be chilly. Yet the hypothetical agencies were supposedly in different lines of business. For DHS, which is composed of historically competitive agencies with multiple overlapping missions and jurisdictions, I would expect more difficult relationships. Where Members of Congress, the President and others see opportunity and “no reason” why organizations with so much in common can’t just get along, those who actually have to coordinate (read: compromise) find countless points of potential conflict in matters of strategy and process. Pride and ambition tell each group their way is right, others should follow their lead and they should not have to give away information or subject their plans to scrutiny by people who don’t know what they’re looking at and may be inclined to criticize.

Interest group ties should be unambiguously positive. Entrepreneurs on both sides surely saw the reorganization as an opportunity to “educate” new appointees and legislators and obtain additional funding in the process. Congressional relations should have been positive by virtue of the Republican majorities in both houses in 2002-03. As mentioned in earlier discussion, the new committees were low on the learning curve and this (along with lingering redundancy of oversight) probably made things more difficult for all agencies. It is unlikely, however, that they would have alienated themselves; in other words, these ties may also be assumed positive.

To analyze the effects of DHS reorganization, we don’t need to assign values to each criterion for each connection. Instead, using the analogous findings from the hypothetical exercise, we can characterize each type as tending positive or negative. To recap the preceding discussion, all superior, citizen, legislative and program ties in
Figures 19-21 are deemed “good;” all peer ties are “bad.” Table 5B summarizes the result of this exercise by providing, for each of DHS’ 7 major agencies, a comparison of the tie count, number and percentage of control (good) ties and the difference in the fraction of favorable relationships.

Table 5B – Good and bad ties in DHS

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<td>-</td>
<td>-</td>
<td>8</td>
<td>5</td>
<td>0.63</td>
<td>11</td>
<td>5</td>
<td>0.45</td>
<td>-0.55</td>
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<tr>
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<td>17</td>
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<td>73</td>
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<td>8.7</td>
<td>93%</td>
<td>10.4</td>
<td>8.7</td>
<td>83%</td>
<td>14.7</td>
<td>8.7</td>
<td>58%</td>
<td>-35</td>
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</table>

In addition to documenting earlier observations about increasing ties at the agency level, data in the table show that from the agency perspective, they were not likely to be welcomed. On average, not only are there far more relationships to maintain, but all the new ones involve sharing information and decisions – activities that invite others into a business that was already complicated enough, both technically and politically. Going back to the valuation criteria used in the Ch. 4 hypothetical, we can imagine each agency

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89 FEMA, an independent agency in 2002, gained a boss when it became part of DHS – a “good” tie by our rule, and the only positive connection of 47 added in the two stages of reorganization. None of the other agencies gained anything in the reorganization, by this measure. The good ones were replaced but all the new ones were “bad.”
head asking: What about this could possibly make my job easier (as I define it), enhance my position and image, or help me secure additional resources (for needs I have already identified)?

KH analysis demonstrates that raising decision costs affects a position’s value; this offers a partial explanation of the extraordinary turnover of executives in DHS. Control relationships – those with program managers – are the agency head’s *raison d’être*. Yet in many ways, these executives are between the proverbial rock and a hard place, as high expectations from above collide with resistance from below. Legal and political constraints, especially those pertaining to spending, are a constant reminder that his job is not to lead but to follow (and make it look good, no matter what). In other words, even the “good” relationships may not be productive, and in the turmoil of reorganization at DHS, control and coordination can both easily deteriorate as agency heads grow lonely and weary doing battle with their employees, interest groups, Congressmen and maybe one another. These “plum” jobs appear to offer great power – large budgets and armies of civil servants to do good for the country. In reality, they can turn into fools’ errands if additional demands are placed on ordinary decision-making processes.

**Budget and Performance**

The last, most detailed KH illustration of DHS incorporates agency and program budget and performance attributes. Resources are highly relevant to analysis of this very political social network. Large programs offer prestige and influence to their masters but
they also attract more scrutiny and envy. For an agency head with numerous programs, the rating of one small program may not matter. It may be worthwhile, however, to consider cumulative effects and exceptionally good or poor performance of the larger programs. The PART scenario in Ch. 4 revealed that citizen groups, Congress and other agencies are unlikely to change valuation of their relationships with an agency or program on the basis of PART ratings. Epolicy ratings were assumed dominant, therefore contradictory program performance assessments were ruled out. For agencies or programs with neutral Epolicy ratings, however, positive ratings gained “brownie points” with superiors up to the Cabinet level.

In Figure 2, budget size and PART ratings listed in the DHS Element Attributes table in the Appendix are indicated by node size and color, respectively. Budget attributes apply to all agencies and programs (but not the Department). Medium is the default, meaning nodes for organizations with mid-size budget authority ($300-900 million for programs and $3-6 billion for agencies) are the same size as those without the attribute. Nodes for organizations with budgets above and below the medium range are sized accordingly. PART ratings apply at the program level only and are indicated by the following color scheme: Effective = blue, Moderately Effective = green, Adequate = orange and Results Not Demonstrated = black.

For the DHS model, we’re assuming positive Epolicy. Interestingly, none of the 47 programs are rated Ineffective – consistent with the hypothetical assumption that the Administration’s ratings are not entirely objective. CBP and SS each have four programs, all of which are Effective or Moderately Effective. CIS, USCG, and FEMA
non-grant programs are performing well. ICE, TSA Security Operations, and FEMA grant programs are mixed. TSA Air Marshall and Transportation Sector Network Management programs are not demonstrating results, therefore they are not sufficiently accountable.

Figure 22 – DHS budget and performance 2008

With just one data point for program performance and everything else in flux, it is not reasonable to attempt any detailed analysis of interaction between connectivity and measured results. What we can surmise is that at least 5 of the 7 agency heads are pleased with program performance; TSA is the exception and FEMA could go either
way. The point is largely moot because we have defined all control relationships as positive, anyway. I would expect all agencies but TSA to include reference to PART ratings in their budget requests, although it may be impossible to determine if the amount requested was affected by ratings. As for causal connection between the reorganization and program effectiveness ratings – it is too early to tell.

This chapter began with application of the research question to DHS as an inquiry of the connection between the reorganization and coordination – which is in turn associated with the capability, not the certainty, of achieving results. The hypothesis is that flexibility is a necessary component of a true accountability mechanism. This brief survey through the KH lens indicates we should have expected less coordination and real control of DHS agency programs as a result of the reorganization, and therefore less accountability for results.

Summary

The early years of DHS offer a valuable lesson – that government is not a machine. Common understanding of accountability fatally oversimplifies issues of control and coordination by assuming connections between organizations and results. In retrospect, it is becoming clear that GPRA erroneously assumed that organizational structures would provide accountability if clarity of objectives were achieved. Conversely, the error of DHS was assumption of a clear mission that lacked the proper organizational structure required to hold specific individuals accountable. In both cases, insufficient attention was paid to authorities and incentives at the level where decisions
are made that actually affect outcomes. Manipulation of goals and targets and measurement of results do not beget accountability; managers must have the ability and incentive to use performance data for allocation of resources toward a different mix of strategies as warranted. Myopic attention to the chain of command likewise mistakenly assumes abilities and incentives to jointly alter plans and procedures according to a common understanding of the optimal path toward a single shared goal.

National security certainly seems worthy of persistent and well-informed effort. This research has demonstrated that complexity theory holds lessons for management of the colossal DHS. Time will tell whether the ongoing experiment evolves from a prime example of obsolete concepts of government reform to a revolutionary success story.
CHAPTER 6. LESSONS FOR INSTITUTIONAL CHANGE

This study challenges fundamental assumptions of control and coordination inherent in U.S. federal policies and practice. In addition to assembling numerous justifications for this critique, I created a framework for analysis of decision making, the Kaleidic Hyperstructure, which modeled the government as a complex system and its organizational components as ideal types. Using a comparative static method of comparing institutional rules and behaviors, I tested the hypothesis that flexibility to allocate resources, when combined with accountability for results, would improve real control and coordination and, therefore, policy implementation and effectiveness. Finally, I demonstrated utility of the KH model for understanding structural change by applying it to a major reorganization of federal agencies. In this chapter, I will summarize findings with the objective of clarifying the need for a different model of the federal government and how a better model can lead to counterintuitive – but more effective – policies and practice.

Performance information, which in the last decade has become not just plentiful but more organized and relevant to programs’ influence on outcomes, has not been used as intended by GPRA because it has remained virtually disconnected from funding decisions. Use of GPRA and PART data has been very limited in the Executive budget process and nonexistent in Congressional appropriations. The “dirty little secret” in
Washington, DC is that major decisions are all about who gets to spend the money. The KH model employs this simple truth to illustrate why control and coordination of activities are not focused on results as defined by performance goals. The proposed solution is to grant agencies more authority over marginal resource allocation as an incentive to abandon strategies that cannot demonstrate results and invest in those that can.

Voters are tired of partisan bickering (Zogby 2008). Yet the major parties continue to devote a tremendous fraction of their time and effort to securing dominance in one or both houses of Congress and to winning the White House. This polarized approach carries over, of course, into specific legislative proposals and the negotiations that ensue—which are rarely based on improving program performance measures. Predictably, the result is a compromise in which specific provisions that made it into the enacted bill are “scalps” that the warriors can wave before their supporters. Agencies are forced to take seriously these detailed instructions that were bargained, not planned, and therefore address neither implementation processes nor clear definitions of success. Adjustments take years. On the inside, the bureaucrats become cynical, even as they find a way to brag about progress. Party loyalists move on to the next battle while voters who weren’t in on the bargain wonder what was really accomplished.

Real control of the federal system forges links between organizations’ objectives that require coordination of activities that they determine jointly in the process of implementation and continuously adjust to reflect new knowledge and circumstances. They must, of course, develop measures of which means contribute to the ends prescribed
by policymakers. GPRA, PART, and the PMA have improved such accountability processes; they are necessary but insufficient. This finding was explained in part by the KH hypothetical scenarios and supported by documentation and observations of DHS ratings and behaviors. The missing link is an incentive to prioritize, compromise and take risks designed to improve results, and that leads us to budgeting. The hypothetical model indicates marginal authority (5%) at the agency head level, in combination with reasonable assessments of program effectiveness, leads to improved control and coordination, which are defined as subjective valuations of different types of network relationships. Higher valuation of these connections implies greater willingness to invest in joint programmatic strategies and presumably, openness to renegotiation of terms as new knowledge indicates what is working and what isn’t.

The next section elaborates on the nature of the federal system and implications for students and practitioners. The second contrasts governance of complex systems with traditional command/control methods, and the third describes what a new (truly complex) order would look like. The study conclusion follows.

**Government is Human**

How have the myths of control and coordination survived so long? Several errors connected by a common yet fundamentally flawed vision of public institutions were identified: confusing power with control, ignoring the politics within the Executive branch and assuming the existence and continued relevance of knowledge. All three are associated with a machine model of government that continues to influence policy and
administration despite broad contemporary recognition that we live in a complex
“knowledge” economy. Politicians may be forgiven for jumping on the latest buzzword
bandwagon without a full understanding of the terms, but scholars should take them more
seriously. Government organizations are not exempt from the laws of human action. In a
democracy with highly fragmented power structure such as the U.S., interaction is even
more complex than in economic markets. Goals are ambiguous, authority is uncertain,
and there are no reliable measures of knowledge.

Congress is a rulemaking body, not a planning organization. Yet somehow,
voters have endorsed expansion of rules to include specifications of activities, formulas,
agents, positions, etc. Law is now commonly understood as anything lawmakers choose
to make it – not, as it was originally defined, a general standard for conduct. Not
surprisingly and intentional or not, this reinterpretation has led to obsessive
micromanagement of agencies and programs – a practice that I have concluded is a
serious barrier to improving program performance. Instead of planning implementation,
Congress should facilitate it by leaving room for coordination and experimentation by the
responsible agencies. This means funding programs with fewer strings attached to the
means and more clarity regarding ends. Accountability can be maintained by monitoring
processes and results.

Americans have also grown accustomed to politicians’ notoriously short time
horizons. They’re always running for reelection; this motivates them to pass legislation
with clever names and noble intentions that seldom lives up to the hype and all too often
actually makes matters worse. What hasn’t attracted much attention is the collateral
damage to all federally funded efforts of legislative and executive officials’ obsession with budgets, which are widely regarded as ends in themselves instead of means to impact social outcomes. To Beltway insiders, budgets are battles that are won or lost in close combat; no wonder they’re treated as outcomes. Warriors on all sides lick their wounds, quickly make the adjustments stipulated by the appropriation, then formulate a strategy for the next round of battle. For the public supposedly being served, however, they are merely plans; nothing has happened yet.

Agencies satisfice within resource, authorization, and other constraints. GPRA/PART results are reporting obligations, not management tools, because doing anything significantly different literally requires an Act of Congress. The transaction cost of obtaining permission from oversight and appropriations committees is prohibitive. There is no government wide performance plan to guide prioritization, and if the President were to create one, it would be ignored or rewritten to serve the needs of a Congress that can hardly agree on total expenditures, never mind on optimal allocation as indicated by projected marginal improvement in performance.

Federal structures and processes presume cooperative behaviors that are irrational, given the incentives of the culture typical policies. While everyone can agree that agencies serving the same populations “should” work together, the tough decisions about who will do what differently are seldom confronted – by anyone. This is because the individuals involved have nothing to gain by engaging one another and face no sanctions

90 The schedule for intra-agency decisions, OMB submissions, and the Congressional Budget Justification illustrates the never-ending annual cycle of formulation and execution that makes no allowance for long term planning or retrospective analysis (OMB 2009:3-5). When Congress’ inability to pass budget bills timely leads to Continuing Resolutions, the overlapping annual plans prove unmanageable and the uncertainties mock serious attempts to adopt a long term view for many programs.
for failure to do so. Our default assumptions regarding inter-agency (and even intra-
agency) relations must be recalibrated to anticipate resistance and conflict. Only then
will policy decisions address the most serious implementation issues. People can indeed
change, but first they must be convinced that doing so is in their own interest.

Program design and appropriations assume knowledge of policies’ feasibility and
impact that prevent discovery and correction of flaws. If the important decisions are
already made, of what use is specialized knowledge? If experts’ knowledge is moot, why
would they bother seeking additional information and insights? Congressional
authorization of FTE and organization, including location of regional offices, is a
common example of decisions that pre-empt managers’ notions of applying tacit
knowledge to improving program effectiveness.

If there is no market for performance information, its supply will dry up. It has
taken over a decade to produce credible, consistent measures of outcomes for federal
programs. If the data are not explicitly factored into resource allocation decisions – and
as I have argued, they cannot be used by agencies alone – continued transparency can
only demonstrate failures to adapt policy decisions to empirics, leading eventually to a
loss of that transparency. Performance reporting has reached a maturity level that will
not be sustained, never mind exceeded, without closing the feedback loop. Competition
for resources based on demonstrated effectiveness can lead to more reliable data. Errors
are found and corrected in an environment where foes as well as friends have access to
performance data. If, on the other hand, performance data continue to enable pretense of
results-based management – by virtue of being disconnected from appropriations – then
bad news will tend to disappear and good news will go unchallenged. Critics will have created a self-fulfilling prophecy that the data are not reliable.

Anthony Downs and Gordon Tullock made enormous contributions to the literature on bureaucratic behavior almost a half century ago. Their observations still ring true today because the institutional problems revealed by their insights were not corrected. My contribution incorporates their knowledge of human behavior in political environments into analysis of the federal system as a mechanism for implementing and adapting policy decisions. For example, two particular components of Downs’ bureaucrat profile introduced in the Organized Anarchy section of Chapter 2 predict isolating, not coordinating tendencies: 1) Officials seek to simplify decision-making by restricting the number of organizational units and diversity of views involved in any given initiative, and 2) All officials tend to oppose changes that reduce the resources under their control or the scope and relative importance of their functions. Likewise, Tullock observed that bureaucrats like power just as much as elected officials and their staff. They seek opportunities to expand their empires, as measured by the number of people and funds under their control.

Chapter 5 makes it clear that these lessons were lost on the most influential advisors and elected officials involved in creation of DHS, who decided that mashing dozens of organizations together would improve coordination of activities by organizations supposedly sharing homeland security goals. Federal bureaucrats are simply following the rules established by Congress and the White House; if spending and

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91 Downs’ *Inside Bureaucracy* was first published in 1967; *The Politics of Bureaucracy* (Tullock) was published in 1965.
FTE are the measures that matter to the politicians and appointed executives, shouldn’t we expect those same measures to be top priorities of the people accountable to them? If we want different results (e.g., more coordination between organizations), we have to look at the constraints and the incentives. To the extent there is any correlation of resources with results, it makes no sense to nail down the former while looking for the latter to change. Leaders that are serious about achieving performance goals will use the appropriations process to reward improved cost-effectiveness and to provide appropriate flexibility that makes response to such an incentive possible.

Donald Warwick, Aaron Wildavsky, and James Q. Wilson added more clues in the 1970s and 1980s that appear to have been overlooked by architects of the DHS. In the same section of Chapter 2 (Organized Anarchy), I summarized these scholars’ explanations of a huge barrier to Executive control – Congress. Power in our federal system is dispersed by design; no single entity can completely control anything. Just as Congress cannot plan or manage implementation of its policies by the Executive, the President and his appointees cannot pursue their initiatives and methods with a free rein. Naturally, the bureaucracy is aware of this; we saw in Chapter 5 that DHS was effectively dead on arrival, given Congress’ retention of legacy oversight privileges and the “back door” opportunities those relationships offered stakeholders – including agency and program officials – who objected to various aspects of the reorganization. Numerous studies document exactly what the KH model predicted – that agency officials spent more time fighting new constraints than forging new partnerships. Had policymakers concentrated on measures of improved performance and removing barriers to
collaboration toward those ends, the new department may have had greater success in its early years.

Macro and micro models omit the dynamic variables of complex systems – those most important to understanding behavior – by oversimplifying relationships. Macro models assume uniformity and stability while micro models overstate autonomy. Both are valuable for analysis of simple systems. However, they take institutional structure for granted and are useless for analysis of how rules influence relationships among interdependent, semi-autonomous organizations or individuals.

Another important consideration in analysis of the federal government as an institution is the tyranny of the status quo. Politicians are elected to deliver on numerous promises that prove overly ambitious once they reach office. Zealous elected officials and appointees are frustrated by bureaucratic opposition that may appear obstinate. They feel the pressure to make progress on their agenda before the next election, but they are seldom willing to accept the burden of demonstrating their policies’ feasibility to the people they must rely upon for implementation. Policy officials seem to believe leadership is pounding bureaucrats into submission. Their error is limiting themselves to one blunt instrument – command/control. This study has shown that for complex systems, network governance is a more effective tool.

Passive aggression can be presented as righteous protection of practices that have stood the test of time when the true motive is laziness or ideological difference.

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92 This is a function of the unit of analysis. If the study objective is to predict a choice to be made at the system level, simple descriptions are suitable. On the other hand, if the objective is to predict subsystem behaviors and effects that emerge at both levels, the model must reflect the dynamic complexity of relationships at the subsystem level.
However, it is clear that regardless of right or wrong, time works against reform. Blaming bureaucrats for failures may have helped some politicians win election but has not been an effective strategy for institutional change. The challenge is to accept responsibility for working with the inherited social network to discover what rule changes will remove barriers to progress – keeping in mind that since it is so much easier to create than to dismantle them, the best targets may be new ones under consideration.

Public choice is a process of discovering, one decision at a time and one individual at a time, which government activities produce desirable effects. Knowledge is dispersed and fluid; therefore time and space (in this case, position in the federal hierarchy) limit the number and scope of decisions any individual can make. Policy makers will continue to experience frustration at the supposed ineptitude and insubordination of bureaucrats so long as they exhibit cognitive dissonance by increasing the dosage of ineffective prescriptions. I do not mean to suggest allowing civil servants to hold any policy hostage or allowing them to pick and choose which policies to support. Leaders must, however, replace micromanagement with prioritization within the context of agencies’ operating environments. This means adopting a network governance approach in lieu of governing by attempts to control every conceivable detail.

Maintaining relationships necessary for control and coordination between organizational units (e.g., clearance processes) is costly. If there are no clear mission-related benefits for any given requirement or traditional procedure, relaxation of the rules might help avoid the “complexity catastrophe” that the KH model suggests may afflict U.S. federal agencies. This is bureaucratic gridlock that results from interdependencies
that act as constraints instead of opportunities. Rules that encourage information sharing on a need-to-know basis can save a tremendous amount of unproductive delay and posturing compared to a default requirement of approval for mundane activities. This of course makes imperative clear guidance on who needs what knowledge – just one example of meta-rules discussed in the last section of this chapter.

KH valuation criteria (policy or process rules, public benefits, validation and funding) lead to a couple of important generalizations about federal bureaucrats’ behavior. First of all, the typical bureaucrat is more likely to identify with the citizens served than with superiors in his agency, department, the White House or Congress. He prefers being appreciated to being controlled. Relationships with outside groups transcend changes of Administration and majorities in Congress. This should come as no surprise but the point is that it appears to escape consideration in policy formulation. If those responsible for implementation do not believe the new policy will help those they are sworn to serve, they will be quite easily convinced that resistance is legitimate. It is of utmost importance that officials offer rationale for policies that address fundamental concerns such as how key groups will be affected. Orders will not be disobeyed but they will be undermined in a thousand ways that will not have occurred to decision makers and could not be controlled, anyway. The point is to earn the benefit of the doubt and thereby marshal these forces in favor of the official policy. At the program level, expect no voluntary support. They have seen too many people and ideas come and go, they are more personally invested, and they have more information about what actually happens.
The other lesson that follows directly from the KH connection valuation criteria is that – again unsurprisingly – those in power enjoy exercising it. Insight obtained from this study is that it is easy to overestimate control by forgetting that orders are not automatically executed. If the party on the other side of the bilateral relationship sees no benefit from cooperating, the connection and the authority it presumably represents may fill space on an organization chart without adding anything of value to the mission. Hostile relations effectively neutralize control activities, so it is not sufficient to occupy a position or to issue an order. Energy spent closing loopholes and knocking heads after an ill-executed initiative rollout might better be spent proactively building trust, so as to bring real authority closer to nominal authority. It is not difficult to imagine the disillusionment of appointees who arrive in their agencies eager to make a difference and find themselves caught in the middle of a constant battle to implement the Administration’s agenda. The more radical and complex the change, the more challenging the internal politics. This may explain the high rate of turnover among DHS appointees.

Tendencies to protect turf escalate dramatically when organizational security is threatened by, for example, budget cuts. Authorizations and appropriations at the program level have conditioned administrators to fiercely defending their “unique” needs. They are unaccustomed to developing joint strategies that could cut costs while mitigating overall negative impact on capability – because under the current system there is no incentive to do so. Consequently, austere conditions provoke harmful competition and isolation – behaviors that in the aggregate move the system toward autarky and make
coordination of activities even more challenging. The Lean hypothetical scenario in Chapter 4, which featured tight budgets, PART ratings and limited flexibility at the agency level, indicated significantly greater coordination (as measured by subjective valuation of relationships) than the Austere scenario, in which all budgets are cut and PART ratings are not relevant. Thus, performance information and discretion permit leaders to reward effective managers. This creates losers as well as winners but over time should work like economic markets to create a healthy competition in which tradeoffs benefit the public by raising overall cost-effectiveness.

In the PART hypothetical scenario, performance information was found to have limited influence on coordination when it is not integrated with budget and appropriations processes. The Accountability scenario, which added (limited) discretion in spending by agency heads to the PART ratings (and assuming correlation of those ratings with program budgets), indicated a favorable tradeoff between control and coordination. System-wide, loss of control was negligible while gains in coordination were significant. Just as with the Lean/Austere comparison, the Accountability/Relaxed comparison is biased toward improved coordination by net positive PART ratings of the programs in the hypothetical agency. However, the conclusions that downside (loss of control) is limited and that incentives created by such a rule structure offer positive tradeoffs for program beneficiaries are unaffected by the level of programs’ average performance ratings.

Remarkably, proposals for reorganization of national security functions into DHS treated candidate organizations like chemicals whose mixture would produce known, desirable compounds – or puppets that would respond predictably to manipulation by
their master. This was a classic case of the folly in treating governance as a black box, i.e., assuming that somehow, existing institutions will be transformed into our new vision. The problems with this are profound. Change initiatives that address real problems of the agents whose cooperation and coordination are necessary components of the implementation process. If proponents fail to recognize that success of the initiative depends on others, it is doomed.

**Complex Orders are Facilitated, not Imposed**

It is one thing to accept an abstract notion of government as a complex system and another to consciously redesign it to include “structural holes,” especially when it is understood that every bit of flexible authority will be exercised – some of it in ways we may dislike. First of all – as explained in the previous section – relaxing rules does not mean sacrificing order if the existing rule structure actually led to chaos. Secondly, spontaneous does not mean disorderly if there is a guiding force. The key, then, is in paying more attention to the new incentives than to the new freedoms. As we found in the Relaxed scenario of Chapter 4, flexibility alone merely reinforces arbitrary decision-making. However, if weakening or removing constraints is accompanied by strengthening other ties, activity can be focused. For example, spending oriented oversight (of numerous budget activities) can be replaced by results oriented oversight (of

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93 In the KH models, each relationship has one connection that is described by the valuation criteria and rule changes were reflected by qualitative changes in the nature of that single tie. An alternative model might describe the same relationships using a different tie for each constraint, in which case rule changes might affect the number of ties.
a few key outcomes) to achieve spontaneous order – adjustment of the mix of activities toward those that contribute the most per unit of resources to the policy objectives.

The Bush Administration’s proposal to create the Department of Homeland Security included several provisions that were presented as pilots for increasing freedom to manage federal agencies. One of them was a change in personnel practices, another dealt with contracting and a third sought budget flexibility – just 5% of each appropriation. The latter was rejected by Congress, apparently without serious consideration, as Executive overreaching. Perhaps it was too much to ask for when laid on top of the other waivers, which were supported by plausible arguments based on national security concerns. However, it is more likely the primary objection was its potential to set a precedent regarding Congress’ precious power of the purse. If another administration submits a similar request, it will have to be supported by evidence that fixed funding formulas have prevented agencies from doing their jobs as instructed by Congress, and how they could have made better use of the funds. Even after a decade of GPRA, most agencies might have difficulty meeting this challenge for even a handful of programs of their own choosing. The reason is that performance data are not criteria for funding.

In a complex organization, control is impossible without coordination because individual decision makers have very limited time and capacity for processing the information. Hierarchies form to extend the span of control. In the federal hierarchy we find a hierarchy that does not serve this purpose because very little authority is actually
delegated. Scope and pace are therefore nowhere near the limits attainable by a system in which component organizations have enough freedom to actively coordinate their plans.94

Politicians have revealed through their policies and behaviors that they consider control a function of titles and legal authority. In reality, these may be necessary but prove insufficient in light of the human nature of the control objects. Overcoming natural resistance of individuals to control by others requires recognition of what can and cannot be controlled. Giving up pseudo-control of some activities presents opportunities on both sides to devote time and attention previously tied up in unproductive conflict toward decisions most appropriate to their respective positions in the network and how those decisions impact on core purposes. Granting flexibility where control is ineffective anyway is not a gift or sacrifice, but rather a Pareto improvement to the organizational structure. Real control of policy implementation and program effectiveness improves with selective relaxation of controls – so long as that energy is redirected toward relationships that are effective in linking control (of policy) and coordination (of activities).

Measurement’s value is in its effect on expectations. Systematic comparison drives formulation and evaluation of strategies. It is worthwhile to track the progress of a given process, but this may limit improvements to doing the same things more efficiently. Novel approaches are more likely to be discovered if the same measures are applied to competing methods. The fastest horse on Earth cannot outrun a Harley.

94 See discussions of Bar-Yam and Hayek in the Order section of Chapter 2.
Growth processes more closely resemble experiments than building from a blueprint. Only so much knowledge is available at inception; surprises – good and bad – call for adjustments in every plan. Such adjustments are only possible if slack exists, which is to say that some resources remain uncommitted at any given point in time.

Micromanagement, whether intended to prevent unauthorized expenditure or to eliminate waste, forecloses an organization’s ability to correct errors and to capitalize on opportunities.

Rules are needed, of course, to guide decision making, especially with regard to the slack resources. Ideally, all decisions are congruent with institutional goals and procedural norms; i.e., they are “organic” and thus reinforcing or self-correcting. A culture in which managers are accountable for results instead of compliance with clearance protocols would allow exceptions to operating plans where alternatives offer clear opportunities to react to new information. Reviewing performance reports at mid-year is not productive unless capacity exists to make adjustments. And, as indicated in the KH hypothetical scenarios, freedom alone encourages prejudiced exploitation, whereas a rule that couples freedom with accountability provides an incentive to shift resources to programs that can demonstrate effectiveness.

In a bureaucracy, constraints – not goals – drive decision-making. While those in power see such controls in a positive light, evidence presented in the preceding chapters has made it clear that control costs more than just the time and energy consumed in reaching decisions and conducting oversight. Complex systems can evolve toward optima only if constraints serve that purpose by providing guidelines while preserving a
significant degree of freedom for components to utilize and acquire local knowledge.
The tradeoff between predictability and growth is unavoidable; government is not exempt
from the commonly understood relationship between risk and reward. In other words,
policy makers and managers who are serious about improving effectiveness must
recognize that it is not desirable to control all behavior. Strategies that rely on strict
command of details from the top of an organization are not likely to succeed in
controlling activities as planned. If they do, that victory will come at a very high price in
terms of performance, for tight controls quickly exceed time and knowledge limitations
of leadership and paralyze those reporting to them. The “red tape” phenomenon, then,
results from inattention to systemic consequences of ad hoc rulemaking.

The law of entropy implies that all life is in fact a battle to maintain and enhance
order that would otherwise deteriorate. *Time is not on our side.* And government, as a
human endeavor, is not exempt. Its institutions can prevent or facilitate adaptations that
combine resources in ways that improve outcomes. Policymakers’ role in design and
operation of the system is to define and prioritize outcomes. Most specific adaptations
needed to implement changes of objectives or their priorities and to respond to external
influences are very difficult to determine in advance. Ends or means can be determined,
but not both; there are simply too many unknowns. Two are particularly important: how
people inside and outside government will react to the changes and appealing alternatives
that will not surface until implementation of the new policy or strategy has begun.

In this new era of abundant communication and access to information, we have
become susceptible to what Stuart Kauffman refers to as a “complexity catastrophe” –
stifling interdependency. Hierarchy is supposed to reduce the number of connections as a means of increasing the span of control. However, it has become so easy to share information that organizations risk falling into a trap of creating unnecessary and unproductive interactions that hierarchies are designed to overcome. Impairment occurs not just from preventing or delaying the proposed activity but from the opportunity cost of unrelated activities that may have more productively occupied each participant in the network. Connections have to allow some discretion on each end to determine under what circumstances which parties are required to be included in decision making, which are optional and which are best not even bothered with the issue. The hierarchy is a constraint, of course – but the default practice regarding who is included in routine decisions has significant cumulative effects on the effectiveness of the system.

This study identifies two key elements of cognitive dissonance between federal administration theory and practice. Control and coordination are commonly used to describe relationships in administration of federal agencies and are therefore very useful focal points in the KH analysis. Despite the deliberate classification of distinct ties as one type or the other, it should be clear from the underlying subjective valuation exercise that virtually every relationship is a hybrid. Managing expectations is an important skill in coordinating control itself and coordination is basically sharing control.

Another interesting comparison that emerges from this inquiry is between conflict and competition. Similarly, they differ in the coercion dimension and both would apply to most relationships under various circumstances. And just as coordination is perceived as benign in comparison to control, so is competition seen in a more positive light than
conflict. I have argued that coordination is not a subset of control but a desirable alternative that will only be feasible in a more flexible institutional environment. Likewise, competition is preferable to conflict and the distinction is not rhetorical. Both require more sophisticated institutions that feature transparent rules and incentives. Parallels exist between conflict and control and between competition and coordination. The first pair of terms implies dominance and hierarchy, while the second pair implies autonomous relations between peers. If we envision government as a network, we need to model it as such. There is no place for competition and coordination in mechanical models that assume policies are automatically implemented and work as designed. If we have any interest in testing the feasibility and effectiveness of policies, we must make allowances for comparative analysis in our models of the relevant institutions.

Conflict is a constant in all control and coordination efforts. Internal conflict does not indicate insubordination, nor does it necessarily imply a tension between good and evil or right and wrong. Rather, conflict is inevitable in any joint effort to define and improve upon knowledge, which is always incomplete. Error is discovered, not accounted for by a fudge factor in the production function. If everyone could agree on the existence and nature of error in plans, those plans would be adjusted. But that doesn’t happen. At some point, they must act in spite of uncertainty and disagreement – which of course may cause additional friction. Relationships are in continuous flux as individuals assert the superiority of their competing notions of what is, what ought to be and how to proceed. This is as true in government as in economic markets – perhaps more so due to the relatively static organizational structures. Businesses may be partners one day and
competitors the next, or vice-versa – and sometimes compete on one level while cooperating on another. In any event, there is little pretense. In government, by contrast, official relationships are fixed. This provides cover for claims of control and coordination that are never realized because none of the parties have exit options. Force is resisted, exhausting everyone to no clearly beneficial end. Mutual recognition that there is no such thing as a unique solution could open the door to a different institution – one in which success is less about symbolic imposition of power (or stubborn resistance) and more about finding agreement on strategies that are worth trying.

One reason government is susceptible to red tape and stagnation is that its organizations do not face the same incentives for continuous innovation found in most economic markets. Businessmen are alert to opportunities and recognize that in many cases the risk of inaction is greater than that of change. Bureaucrats may have difficulty grasping what’s wrong with the current process and the urgency of changing it. Skepticism is justified since many initiatives are politically driven and seldom supported by thorough analysis. If we have learned anything at all from the Bush Administration’s management agenda, it is that competition can work in government. Agencies and programs that are held accountable for demonstrating improvement have made progress in developing the capacity and the habit of self-critical evaluation. This happened because of regular assessments via the Executive Branch Scorecard and the PART, both of which made comparative ratings public. Much remains to be done in terms of linking performance ratings to budgets and obtaining legislative branch participation. However,
it is a significant step toward transforming the federal government into a more innovative culture – one that questions the old ideas as well as the new.

A formidable barrier to improving effectiveness as measured by outcomes is the perception of politicians, bureaucrats, and citizen groups alike that winning a larger appropriation for their team is the end game. Congress makes the rules, so their focus on spending drives behavior. The hypothetical scenarios in Chapter 4 illustrate that due to the strength of incentives tied to resources, all participants value larger budgets more than flexibility and performance information. Because control relationships imply leverage of resources, they are strongly preferred to coordination relationships, which imply sharing resources. This really stands out under tight budget conditions as enormous energy is devoted to fighting proposed cuts. Competition in this context is costly in terms of both control and coordination as traditional rivalries and resentments over policy preferences impair organizations’ ability and motivation to conduct routine administration.

The costly experiment of DHS provided yet another lesson that shuffling the organization deck without attending to incentives does not contribute to accountability or effectiveness. Scholars with knowledge of similar federal reorganizations predicted defense of fiefdoms, not collaboration, and follow-up studies confirmed that five years after creation of the new department, its seven major operating components remained independent. Weak leadership is evident; the 2007 update of the National Strategy for Homeland Security did not correct the most obvious errors in the first edition – failure to identify priorities and assess tradeoffs to clarify expectations and unify efforts. The other major obstacle is that budgeting and appropriations processes were not revised to provide
the Secretary the critical power to fund priority programs. While these errors were obvious even under the traditional model, the KH analysis – by illustrating how the new organization created ties with no clear beneficial function – suggests that the reorganization was not just poorly executed; it was ill-conceived. The fatal flaw was expecting improved control and coordination by consolidating hierarchies that were already struggling with “red tape.”

Especially since DHS component organizations had long histories of independent operation and some responsibilities outside homeland security, the strategy may have looked very different if it had been developed with a network vision of components’ relationships. For example, the KH model predicted all new ties were undesirable from agency heads’ perspectives under the accountability-driven design. This may not have been the case if the reorganization had linked agency budgets to joint objectives that could not be achieved without coordination. DHS’ extraordinary executive turnover may be attributable to the impossibility of satisfying conflicting expectations of the Secretary, the Congress, career officials and citizen groups – conflicts that were not addressed by the reorganization plan. Controls increased even as the strategic imperative called for coordination, which can only happen if organizations have slack to negotiate new procedures. Placing agencies with related functions under the same Secretary may be beneficial, but only if requirements to work together are facilitated by incentives to direct and reward the necessary risks and tradeoffs.
A New Vision: Policies as Experimental Meta-rules

Ultimately, voters will decide whether politics as usual continues. Simply (and cynically) put, the game entails politicians promising public goods to get elected so they can satisfy special interests. Most people know this but play along because they love the attention, belong to at least one special interest group, and do not personally bear the costs. Should the day ever arrive that voters demand evidence of policies’ effectiveness, the game will change – dramatically and irreversibly (but not quickly). Policies that were assumed successful when enacted will be subjected to critical analysis and debate, more or less continuously. The folly of prescribing by committee the details of operations will become obvious; advocates will discover that building in maneuverability is a good way to ensure survival of the program. Feedback during implementation will indicate optimal program design characteristics and allocation formulas. Instead of lobbying to enshrine their favorite ideas in legislation, special interests will form alliances with agencies and program managers accountable to Congress for producing results within the broad constraints authorized.

Though few are likely to see it and fewer will care, these changes will amount to a spontaneous reordering of the government from a hierarchic command/control model to a network governance model. If and when it happens, Congress will view it not as surrendering control but as responding to the electorate and adopting more sophisticated tools. They will be right on both counts. Despite never having bought into the idea of spontaneous order, they will notice that programs are working better and they are getting
better information. And they will be able to take credit (or face an astute opponent who is quicker to promote alternatives).

I hope to have identified a way out of the control trap (addressing failures of control by imposing further controls) by demonstrating that the resource/results game has been mistakenly based on a machine model of government. Because government is actually a complex social network, we need to pay closer attention to qualitative dimensions such as rules and incentives that encourage interagency collaborations and innovations aimed at improving outcomes. In a complex environment, specific organizational arrangements and strategies cannot be designed; they emerge via interaction. Rules must make allowances for evolution of processes while keeping agencies focused on common goals consistent with broad policy objectives. Interdependencies are opportunities insofar as they preserve an appropriate degree of autonomy. Tying organizations to one another in a rigid and permanent fashion may be worse than treating them as fiefdoms. Growth occurs when knowledge and resources can be freely exchanged – whether we’re dealing with public policy or markets. Public sector organizations are different from firms, but the two types have far more in common than not because they are both subject to the laws of human nature. Businesses have caught on to the competitive benefits of organizing by principles of complex adaptive systems. It’s about time governments recognize that the people expect continuous improvement in services – a demand that cannot be met using management methods better suited for a primitive society.
Bureaucracy is properly regarded as the natural consequence of dysfunctional organizational structures. Instead, it is still used to describe behaviors of people situated within large organizations – as if they were different from others by choice or chance of their employers or occupations. After a century of scholarship on the subject, revision of this attitude by public policy practitioners appears overdue. The federal agency hierarchy is necessary, as are similar arrangements in other organizations. However, priorities are misplaced, as many officials tend to compensate for natural limitations on time and knowledge by micro-managing the few marginal issues they think they can control. Congress and the President – who fail as leaders when they become distracted by earmarks and initiatives – should demonstrate greater concern for how well major programs are performing. Oversight of innumerable policy directives proves impossible and prevents accountability for results associated with programs that affect millions of citizens. Delegation of decisions on the details of implementation and operation to lower levels would make room for executive attention to management at the portfolio level, where their authority and expertise are critical for coordinating policies and operations of separate but related programs and agencies.

Complex systems defy strict control. Inherent limitations of knowledge (which is, as discussed in Chapter 2, imperfect and perishable) constrain our ability to manage such systems as a hierarchy. Federal administration relies on human beings who can make or break the effort by coordinating plans (or not). Wise policy makers can make this fact of bureaucratic life work for them instead of against them by careful alignment of incentives with organizational goals. This is not just a device for preventing defection and
encouraging support for initiatives; it is essential as a means of facilitating self-
organization needed to adapt to unforeseen barriers and opportunities. A system of
incentives requires a corresponding system for evaluating programmatic contributions,
such as incremental analysis that considers performance measures and opportunity costs
of a portfolio of programs designed to contribute to a single outcome objective.
Allocation of funds on such a basis is of course what makes such a system effective;
measurement alone is of very limited value. Agency managers have access to the
information needed for marginal adjustments and could make effective use of such
authority, but legislative oversight of results is required to keep those efforts on track
with broad policy objectives as vetted by the democratic political process. This division
of labor enhances real control by providing Congress valuable feedback on results linked
to their program designs and appropriations, while leaving managers free to utilize real
time information that indicates relative effectiveness of alternative strategies.

Uncertainty at the program level of policy goals or funding is very costly in terms
of performance because it evokes risk-averse behavior. Bureaucrats are well aware that
in a volatile political environment, transitions of power in the Legislative or Executive
branch can bring significant changes in organizational structure, processes and budgets.
They are easily distracted by these concerns and often waste tremendous resources
resisting change to protect their interests. Leaders who expect their staff to improve
efficiency and develop more effective strategies need to focus agencies on their mission
and provide some assurance of continuity and stability. Division of power and civil
service rules temper the pace and severity of change, so it should not be terribly difficult
to keep staff focused on long-term objectives. Problems arise when the Administration has proposed severe cuts or elimination and the leaders themselves don’t want a future for the program. Congress may not agree, and consequently career staff can be in purgatory, so to speak, for several years. This is poor management. Responsibility for juggling conflicting objectives lies with Administration officials, who should not presume their proposals will win approval and thereby make decisions that undermine legislative authority and put their staff in a no-win position. Contingency plans that drive continued improvement of programs as currently authorized even as future policies undergo debate should be routine for politically controversial programs. This may not occur to policy makers who see programs in black-and-white terms – a logical consequence of the mechanical model in which all pertinent knowledge is enshrined in legislation. An alternative view of programs and policies as experiments that are meant to evolve as experience and new information is obtained might lead to a healthy doubt on both sides as to whether any solution can be judged a priori.

Empowering agencies and programs is not about recognizing any inherent value in the organizations; it’s a shift in perception of government from a structure of entities that implement a to-do list to a structure of capabilities that can adapt to changing goals. Managing this network requires that politicians (including Executive appointees) apply their skill at sensing and responding to interests of their voting constituents to design and negotiation of new rules (including repeals) needed to guide implementation of policy changes. Bureaucrats seek security, approbation, and autonomy – just like everyone else. Authorities’ change efforts will be frustrated to the extent they fail to recognize this...
important fact. For initiatives that run aground, inattention to the interests of people in the implementing organizations leaves open the question of whether the idea had merit or not. Was it a pipe dream to begin with, were there substantive issues that might have been worked out, or were bureaucrats’ baser motives at play?

Serious policy lives in the real world, where there is no clear boundary between formulation and execution. Interactive planning – where major implementation issues are negotiated, to some extent – builds trust. Ideologues will object to tampering with designs that represent more complete success. However, they bear the burden of demonstrating feasibility. Every decision (including inaction) involves opportunity cost, and the tradeoff is complex – meaning there is no right answer per se. Public value is subjective, anyway; whether and how any selection of politicians and bureaucrats can create it under given conditions is uncertain. Hence, policy decisions aim at the moving targets of feasibility and impact, and the first target must be hit to get a shot at the second. Neither determination can be made ex ante, and the act of shooting in each case requires coordination of efforts and possibly adjustment of the targets themselves. Governance is an emergent process, the operation and success of which is largely determined “on the fly.” This does not mean ad hoc policy or management; it does mean deliberate attention to inherent limitations of knowledge and control. Satisficing is not settling for less because the obstacles to goal achievement are often inherent in the fallibility of all plans.

Just as we have found that viewing government organizations as networks vs. machines leads to different types of policy, so does close attention to the meaning of “coordination” alter expectations of executives and managers. Evolutionary economists
define it as restructuring of complementary relationships – meaning old understandings give way to the new via a process of de-coordination and re-coordination.\(^95\) This definition appears to more accurately describe what is required of federal government officials, because as the KH scenarios helped explain, the difficulty of obtaining meaningful inter-organizational collaboration is chronically underestimated. My claim is that this is largely due to the machine model in which every program manager is a genie in their agency head’s bottle – and so on up the chain of command. Accommodating a new directive or request (with no additional resources provided) necessarily involves deferring or forgoing existing or planned activities. “What’s in this for me?” occurs naturally if the order crosses real or perceived organizational boundaries. The answer is seldom easily found, primarily due to failure of leadership to make joint interests clear or to determine appropriate roles and responsibilities in the joint venture. No one likes hearing “That’s not my job,” but it happens so often because bosses tend to pile on new duties without helping determine which old activities are no longer warranted.

Policymakers can expect confusion and demoralization among those responsible for implementing significant interagency initiatives in participating agencies and programs if they fail to acknowledge conflicts with existing priorities.

Public sector organizations avoid competition where possible; in this respect they are no different from non-government organizations.\(^96\) However, they succeed more often because political competition tends to be distributive rather than creative – with

\(^{95}\) Common usage of the term (coordination) is pretentious in that serious collaboration is implied when it is understood that it may not get beyond press releases, memoranda, meetings and conferences.

\(^{96}\) This is the fiefdom syndrome discussed in Chapter 2, wherein members create and support an image of uniqueness.
incentives to engage in harmful competition for limited votes or dollars as opposed to healthy competition that attracts investment in more promising activities. This, too, is to some extent a function of the mechanical hierarchy model of government in which each organization has a fixed role and “share” of the operation. A more complex network model, on the other hand, assumes roles and budgets will change along with knowledge and policy objectives. This view of government encourages competition between strategies, none of which are identified permanently with organizations, never mind individuals. Relationships that blend complementary skills and resources to improve effectiveness will tend to survive because they produce net benefits. Those that don’t, won’t – and that’s OK. In light of the apprehension among civil servants and an increasingly polarized political environment, it is critical that (further) attempts to import business methods to government explicitly embrace and clearly communicate a concept of competition between imperfectly formed and unproven policy options.

Of course, the most important fact to remember is that policymakers are human, which means they all have an agenda and promoting it (not creating a learning organization) is Job One. Policy attributes – partisan assessments of agencies or programs as Favorable, Neutral or Unfavorable – are major determinants of relationship strength in the KH model. This is why flexibility alone may not be beneficial. It prompts adaptive behavior but at the cost of more conflict; appointees redirect more spending toward favored programs, which provokes resistance and retaliation from opposing interests (see Relaxed scenario in Chapter 4). Accountability – defined in the KH scenario of the same name as adding PART information about program performance to
the marginal discretion over resource allocation – necessarily contains political
determinations of key measures that in some cases mask rather than augment the policy-
driven assessments. PART’s ancestry as a creature of the Executive – not its substance –
is the likely source of Congress’ apparent disdain for its use as a budgeting tool. Indeed,
the model indicates that linking budgets to this particular tool strengthens ties within
agencies at the expense of those with interest groups and Congressional appropriators.
Obviously, this represents a shift of power to the President. If appointees and managers
are to obtain the flexibility they need for network governance, the White House must
invite Congressional participation in its assessments of program performance.

Early in the history of DHS, scholars identified the need for managing the new
department as a complex network rather than a hierarchy, for the same reasons I have
argued for using such an approach for the federal government more broadly: Managers’
missions and processes conflict with one another and no one wants to cede authority or
share resources. These experts realized that change at this level and scope is far from
automatic. It challenges cultures and is doomed unless the change process itself is
carefully designed and executed to shape perceptions of organizational goals and
processes as shared with the new partner(s). Knowledgeable observers noted
incongruence of applying a traditional command and control structural framework to a
21st century reorganization of agencies charged with national security and emergency
response. Questionable assumptions regarding knowledge and incentives at the disposal
of DHS leadership were also identified as significant risks to the success of the
reorganization. Recommendations for the inevitable second phase included methods
better suited to the coordination challenges, such as adaptive management – a process that treats policies as experiments. This view is consistent with the KH framework and my hypothesis that policy implementation and effectiveness could be improved by trading flexibility for results-based accountability in oversight of federal agencies. The KH models of DHS in Chapter 5 illustrate how neglecting the need for unifying principles and processes in conjunction with changes to the hierarchy might have actually caused a reduction in control and coordination of the component agencies.

**Conclusion**

At the federal level, serious efforts to improve program performance are running aground on an obsolete model of government. Effective governance requires recognition and understanding of the federal government as a complex network that cannot be controlled in any strict sense. Government is above all a human endeavor subject to the same natural laws as any other organization. If we are to understand social behavior, we cannot apply mechanical models. The federal government is clearly a complex system in that it consists of semi-autonomous, dynamically connected elements. Systems become chaotic if their elements are tightly connected, thus propagating every disturbance from anywhere to everywhere. At the other extreme, an order in which each element has no effect on others cannot evolve. In other words, government dysfunction is a predictable result of too much control and too little coordination. It will perform better if we apply less of the former and enable the latter.
Just as many in the U.S. are reluctantly accepting globalization of our economy and its implications for American power, politicians will achieve their stated goals only to the extent they are willing to accept their own limitations. Interdependencies imply that officials’ power is already less than they think – and this study has shown why its decline will only accelerate with further attempts to tighten their grip. Real control in the current and future policy environment is enhanced by selective relaxation of constraints, coupled with targeted oversight of results. Coordination is not planned; it is emergent as a function of incentives provided by lawmakers’ meta-rules. Under the status quo, which is dominated by micro-rules (activity-based funding), opportunities to correct misallocation of resources using experience and data are lost. Regular reporting on outcomes merely documents the byproducts of ad hoc policy and administrative decisions. We have no right to expect or to claim credit for improved outcomes when policies are not created or analyzed from that perspective.

The research question and hypothesis focused discussion in Chapters 2-5 on the potential for marginal flexibility of resource allocation to improve policy implementation and effectiveness. Using a graphic model of the federal government as a complex network, we discovered that under the status quo, we should not expect effective control or coordination in a typical agency because loyalties are divided and peer relationships are chilly. Flexibility is a necessary but insufficient property of the organizational structure. Incentives to utilize the flexibility in a manner consistent with policies and in ways that improve their chances of success are indispensable to effective governance. This in turn requires more realistic understanding and expectations regarding policy
itself. Policy formulation should avoid detailed specifications that imply knowledge of cause and effect, focusing instead on providing guidelines that explicitly recognize uncertainties with respect to operations and results. For example, common strategies for regulatory programs are education and enforcement, both of which aim to increase compliance. Managers should have enough freedom in their appropriations to experiment with the mix of these strategies; oversight should focus on the measured results (compliance).

While it is readily accepted that our federal government is a very complex organization, it appears we have plenty to learn about managing complexity. Elaborate legal institutions and hierarchies encourage those in power to equate oversight with constraints. Most politicians, policy advisors and bureaucrats overestimate the real value of authority and underestimate the value of coordination. Obsession with control (as opposed to results) leads to legislation, executive orders and rulemaking that strangle coordination and may have harmful marginal or cumulative effects on the system and on social welfare. Compliance with overly specific rules does not necessarily lead to achieving stated goals of the new policy and is often at the expense of effective implementation of others.

Coordination must be understood as application of dispersed knowledge; it is not the product of plans but a method of reconciling them with one another and with conflicts that were not anticipated. It flourishes in institutional environments that encourage mutual adjustment (spontaneous order) at the edge of order and chaos, where a few rules indicate the preferred direction but most decisions are decentralized. Since people are
naturally opportunistic, increasing flexibility risks increasing control at lower levels in the organization without improving coordination. That’s why removing or relaxing low priority tethers must be accompanied by strengthening those most relevant to organizational goals.

It is no revelation that annual budget battles, not performance issues, dominate debates and drive most decisions in Washington. Over the years, many have expressed concern about agencies’ ability to plan and manage programs under conditions of uncertainty and short-term funding. Biennial budgeting has been proposed as a solution, but most of the players realize this would just prolong the battle. In Chapter 4, we saw that control and coordination could be improved by linking resources to results via comparative performance assessments. Agency heads were identified as ideally positioned to forge such a link because they have the requisite knowledge and interests. Congress has resisted delegating such authority, even on a limited basis. Their objections – unconstitutionality of ceding spending decisions to the President and mistrust of his performance analyses – are understandable, but since they have proposed no alternatives, it is apparent that legislators prefer the status quo.

Mechanical models of government are responsible in part for persistence of the illusion that legislators and executives exercise real control of agencies and programs and that coordination can be ordered from above. Changes in behavior follow incentives, and incentives to coordinate activities toward policy objectives are obtainable only if managers are allowed to adapt to new information and held accountable for the results.

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97 See the discussion in Chapter 5 of the Bush Administration’s proposal for discretion to reallocate up to 5% of the DHS budget.
None of this will occur unless members of Congress buy into the concept of government as a complex network. By relaxing ever so slightly control of program level budget activities and increasing attention to outcome measures, they would facilitate self-organization; the federal government could evolve toward a self organizing system capable of implementing and analyzing the impact of complex policies.

Policy formulation and implementation processes in the U.S. federal government are handicapped by misunderstanding of the nature of primary tools of policy – departments, agencies and program offices. All organizations are systems of decision rules, not instruments that can be programmed and manipulated. This is a good thing, because policymakers do not have the time or knowledge to make effective use of puppets. Career officials possess institutional knowledge of what has worked in the past and are capable of blending new evidence, theories and strategies – some organic and some provided by policymakers – to adapt means and ends to evolving circumstances and goals. Policymakers can leverage this knowledge by focusing on rules that define priorities and constraints, taking care to leave room for discovery and adaptation to unanticipated challenges and opportunities.

Implementation and analysis cannot emerge from a vacuum, therefore comparisons must be made between comparable programs and processes – or at least with past practice. Although there are winners and losers in any real competition, economics has taught us that choice itself is a good and that the invisible hand will work if we let it. Because most scholars and practitioners view government institutions as fundamentally different, they are not designed or managed by market principles. The
market baby has been thrown out with the Darwinian bathwater by skeptics who object to “running government like business.” Proponents clearly need a new approach; the KH model identifies similarities that point to options short of virtual privatization. Intuitively, the public expects coordination between federal agencies to be relatively easy. In practice, however, conflict is common and meaningful coordination is very difficult if not impossible to achieve. Policymakers are responsible for diagnosis and treatment of this particular dysfunction. Solutions will come if the patient is recognized as human.
## APPENDIX: DHS ELEMENT ATTRIBUTES

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<th>Element</th>
<th>Type</th>
<th>Budget(^98)</th>
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<td>M</td>
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<td>Waterways Management</td>
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\(^98\) FY 2008 funding level ($millions) per ExpectMore.gov. For programs, S = 0-300 (million), M = 300-900, and L = 900+. Funding for program groups (indicated by indentation of components) is subtotaled as “est.” in the preceding row. The source for Agency level figures (italicized) is the DHS FY 2007-09 Revised Enacted Budget Authority for FY 2008, including mandatory outlays – except INS and Customs, for which the source is the FY 2003 estimate for FY 2002 spending (DHS 2008:134-36 and OMB 2002:213, 278). For agencies, S = 0-3000 (million), M = 3000-6000, and L = 6000+.

\(^99\) E = blue, ME = green, A = orange and RND = black in Figure 20.
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CURRICULUM VITAE

Steven O. Richardson is an analyst in the U.S. Department of Labor’s Center for Program Planning and Results. He leads production of the Department’s annual Performance and Accountability Report and provides component agencies with technical assistance related to their budgets, management reviews, and program evaluations. Prior to joining the civil service in 2002, Steve was assistant director of the Government Accountability Project for the Mercatus Center at George Mason University. In 1999-2002, he led Mercatus’ research for an authoritative ranking of major federal departments and agencies’ annual reports under the Government Performance and Results Act (Annual Performance Report Scorecard: Which Agencies Inform the Public?). He also conducted independent research and co-authored another Mercatus Center publication that compared federal vocational training programs on the basis of outcome measures (Putting a Price on Performance: A Demonstration Study of Outcome-Based Scrutiny). Steve moved to northern Virginia from Wyoming, where he had worked as a petroleum engineer, a certified financial planner and vice president of a small supply/manufacturing business. He earned his bachelor’s degree in chemical engineering from M.I.T. in 1979.