



Banish Bureaucracy . . . then decide how much government you want

**By Jim Chrisinger
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***Your politicians are stuck. They're asking the wrong questions.
You're not getting the government you want and you could.***

Bigger or smaller government is not a bad question, just not the one that most needs an answer today. The right question: What **kind** of government do you want? It doesn't make sense to debate bigger or smaller until we replace an obsolete way of "doing government" that pretty much guarantees that government will not be as focused, effective, innovative or efficient as it could be.

Let's explore that obsolete way – and a far better way of doing government – via three perspectives from today's headlines:

I. "How to Cut the Budget?" is a Wrong Question

Anguished officials across the land are slashing government budgets besieged by falling revenues and rising demand for services. Stimulus funds will temporarily soften the blow, but the bow wave effect of these funds will tend to make things worse by allowing politicians to put off until tomorrow problems that should be dealt with today. Even those jurisdictions that scrape by this year by finding cuts will be back at it next year. Others, more prescient, will see in this crisis an opportunity to ask – or demand – a better question.

The "finding cuts" approach -- and its "finding savings" cousin -- assume the budget work as it's currently done. Budget writers and politicians assume we just have to find ways to do what we do with less money, by trimming fat. Let's cut where it does the least damage and pray for more revenue, soon. This kind of budgeting is about costs and revenue: how to trim costs to meet the revenue available.

Seeing "dollars" as the bottom line in government budgeting misses the point of government. Government doesn't exist to spend money, or to preserve government

jobs.

The current system brings out the worst in us. As part of an effort to deal with revenue shortfalls, a medium-sized city recently gathered data on city vehicle use. City officials found a car assigned to one department that had been driven less than 100 miles last year. The City Manager cited this example in a budget planning meeting. Here's what came back through the grapevine: the chief of the unit with the assigned car announced at his next staff meeting: "I want to see a plan to get more miles on those cars."

There is a better way. Think of government's bottom line as value provided to the people they serve. "Value" is results (how lives are better) per dollar.

Results/Dollar = Value

Until we start evaluating and rewarding governments – and elected officials – by the value they produce for us, we'll be stuck arguing about the money, or spitting at each other about left and right, red and blue, more government and less government.

Let's use common sense instead. We could much more productively employ the budgeting process to build a budget from scratch, asking, "What's the best way to produce the most value for those we serve with the dollars we have?" *Regardless of what we're spending the money on now.*

A process like that, called "budgeting for outcomes," which twenty-some jurisdictions around the country have gingerly been experimenting with, asks different questions, beginning with: What are the results that the people believe government should achieve or help achieve? How do we want the lives of those we serve to be better for what we do? Be clear. We know government cannot do everything that everyone conceivably wants it to do. And because we need a way to know whether our budget is working or not, establishing metrics can help us gauge progress and hold our governments accountable. Then ask, how much are taxpayers willing to pay?" These are philosophical and political questions. Elected representatives need to decide. If they can't agree, just start with the current revenue forecast and prioritize from there.

Then elected officials ask their government departments to make budget proposals based on value: What are the best ways they could produce the most of these results with the fewest dollars? Note the difference. We are not asking them to submit today's budget request: How much does it cost to do what you do?

This approach rewards innovation and entrepreneurship. The Iowa Department of Revenue collections unit had no luck getting the legislature to sign off on purchasing new software and authority to better integrate operations with a long-time private-

sector partner. So they used “budgeting for outcomes” to offer a deal they hoped could not be refused: Let us do what we think needs to be done, and we’ll promise you \$42 million in additional, already owed but uncollected revenue over the next three years. The legislature bought the deal and Revenue delivered: \$120 million in additional revenue.

In particularly aggressive jurisdictions, these requests for value proposals could reach beyond government, to the non-profit and for-profit sectors. Harness the power of internal and perhaps external competition to spur creativity and efficiency, but establish competitive parameters that accord with our values and the public interest. We want the budget proposals that produce the greatest value, regardless of who provides the service. We owe our residents and taxpayers no less. Then fund the best ones for each major result, with the highest-value options at the top of each list, until the money is spent. If through this process we fund what we currently do because it delivers the best value, great. If we choose other ideas over what we currently do to get more value, that’s great too.

The State of Washington, the first to try this approach, during the last fiscal downturn, prompted the Seattle Times to editorialize, “The usual, political way to handle a projected deficit is to take last year’s budget and cut. It is like taking last year’s family car and reducing its weight with a blowtorch and shears. But cutting \$2 billion from this vehicle does not make it a compact; it makes it a wreck. What is wanted is a budget designed from the ground up.”

This “budgeting for outcomes” approach at least gives the facts a chance against politics and special interests. Here’s a macro example of how it has worked. Based on the evidence of value to student achievement, bi-partisan supermajorities in both houses of the Washington State legislature in 2003 temporarily suspended citizen-initiated initiatives backed by teachers’ unions to lower class sizes and raise teacher salaries. Tough choices, but the money was better spent elsewhere. Unfortunately, political interests ensure that wise decisions made during financially tough times don’t always carry over to good times.

A micro example: Ft. Collins, Colorado identified nighttime “dial-a-ride” service as low-value, primarily because of its more than \$90/ride cost. Rather than just cut the service, they negotiated less-than-\$20 evening rides with a local taxi company to keep the service.

In another example of these concepts, Iowa Governor Tom Vilsack’s 2004 budget included an \$88 million “negative line item.” This commitment forced him and the legislature to come up with innovations sufficient to cover that amount before the end of the legislative session. They did.

While “budgeting for outcomes” holds great promise, there is no rush to exploit its potential. Instead, the status quo prevails. Departments and their advocates fight

among themselves, zero-sum mercenaries for a shrinking budget payday. Many now beat the drum for more revenue as rescue.

Governments should not ask for more money without proving first that they have maximized value from the dollars they already have. We need a way to do that; cutting budgets is not it.

WHAT KIND OF BUDGETING DO WE WANT?		
Key Questions	Bureaucratic Budgeting	Budgeting for Outcomes
What's the basic task?	Fund departments, fund programs, fund costs	Purchase results
Where does the process focus energy?	At the margins, where there are cuts and adds from last year's numbers	Across all the results and all the money
What is the system's basic dynamic?	Inertia maintains current spending	Competition generates better options; prioritization forces better choices
What's the incentive for government departments? How do you "win" the budget game?	Hide, pad, and threaten dire consequences if there are cuts	Offer the most results per dollar
What's the bottom line?	Dollars	Value

II. Creative Destruction for Government Too

Joseph Schumpeter has never been so popular. This Moravian-born economist who finished his career at Harvard popularized the term "creative destruction," the process of innovation creating new products and services and effectively "destroying" existing ones as a result. New companies and jobs rise, others transform, some disappear. Fortunes and futures are made, and lost.

Today's debate asks whether foundering banks and auto companies should be swept away or transformed in bankruptcy or government receivership of some kind to make way for new entities that can deliver better products, services and jobs. That debate, while spirited, does not challenge our foundational belief in the value of

creative destruction. We wouldn't dream of living without it.

Creative destruction means more and better choices for almost everything we buy. It means more value for each dollar we spend. It creates whole new industries and human potential. As much as anything, the value Americans place on the innovator and entrepreneur distinguishes us from the rest of the world. Creative destruction is the not-so-secret of our success and a primary reason so many seek our shores. We know the risks – now more than ever – and how harshly they can be felt in lost jobs and evaporating investments. But our societal DNA tells us that the upside potential outweighs these costs over time. We are an entrepreneurial people.

If today's crisis creates doubt for you, live a while in a society without creative destruction. As a Foreign Service Officer in Czechoslovakia before the Iron Curtain fell, I witnessed plenty of destruction, none of it very creative. Few products, less choice, abysmal service. People typically carried an empty "perhaps bag" with them. "Perhaps" there will be bananas or oranges somewhere I pass today.

Entrepreneurial activity flowed in other channels. Czechs cynically noted that "he who does not steal from the state steals from his family."

So now is a good time to ask: Why do we only talk about creative destruction in the private sector? Why don't we want – indeed demand – the dynamism of creative destruction in the services we receive from our governments? Why don't we expect better value for our tax dollars? Why aren't our governments constantly creating and destroying, trying different strategies and methods, and adopting those that work best? Why can't we have more entrepreneurial government?

We need it now more than ever. How can we afford **not** to be more entrepreneurial? To continue to spend our tax dollars in the same old ways and expect different results is insanity, paraphrasing Einstein's definition.

Courageous leaders around the country are pioneering more entrepreneurial government. A sampling of their methods:

- Ask "customers" to define good service, create a standard based on that expectation, and give it teeth. For example, State of Iowa drivers license stations set a customer service standard: For a routine driver license renewal, you should be in and out within 30 minutes. If you're not, you don't pay the fee. That's a better way to "do government."
- Relentlessly prioritize and shed lower-value activities. See the example in Section I above from the State of Washington's 2003 legislative session.
- Harness customer choice and competition, including for government's internal customers. Ideologues on the right say government work ought to be

contracted to the better-cheaper-faster private sector whenever possible. Their counterparts on the left say government work should always be delivered by government employees so it gets done well and taxpayers don't have to pay extra for "profit." Both are wrong. Use "managed competition" and let both the private and public sectors bid on appropriate work. Get the best value for the public and taxpayers, regardless of who does the work.

Under Governor Branstad, the Iowa DOT held a managed competition for highway paint striping. The DOT crews won the work, resulting in savings of almost \$350,000.

- Change the basic incentives. Unless you change the basic incentives, you're just "cheerleading" change. The Iowa DOT sign shop implemented "gainsharing." The eight sign shop workers were challenged to find savings during the year. Their incentive was keeping for themselves 25% of the savings achieved. After the final accounting, each worker took home a check for \$5,000 and the taxpayers gained three times as much.
- Pay contractors for value received, not effort expended. Federal Student Aid employed a "help desk" contractor to field questions from students and their families. When quality checks turned up many unhappy callers, analysis pointed to a flaw in the contract. FSA was paying a fixed sum per call. Even without bad intent, the incentives were all wrong. FSA renegotiated the contract to pay for solutions, not calls. FSA's customers received better service; FSA paid less; and the contractor ended up making a better profit. The new arrangement much better aligned interests.
- Cut red tape. For example, require one signature on a travel authorization, not seven, which perversely lets all seven off the hook, each thinking the others are taking responsibility.

If we know how to do government this way – and we do – what's keeping it from happening everywhere, now?

Inertia. Fear. Lack of vision and confidence. Resistance from the people who benefit from the way it's done now, inside government and out. And a media environment hostile to entrepreneurial government. How do too many governments pursue reform now? One retirement at a time.

You get what you reward. In government today, we above all reward compliance with rules. We reward longevity over performance. There is practically no upside potential incenting people in government to innovate, risk and improve value. The downside dangers are swift, severe and all too familiar.

When we demand and reward entrepreneurial government, including creative destruction, we'll get it.

III. Quit Tinkering with the Software; Government Needs a New Operating System

“Every system is perfectly designed to produce the results it currently produces.” Almost never intentionally, but true. This insight should embarrass everyone who can influence the governments we like to complain about.

Most Americans view government with arched eyebrows, highly skeptical, particularly about the value we believe we receive for our tax dollars. When asked whether they were more bothered by the amount they paid in taxes or by how government spends their taxes, a national poll found only 12 percent more concerned with how much they paid.

The basic political responses are two. From the right, “cut taxes” so we'll have less government on principle or because we believe it's so bloated or misdirected that “less” will force improvement. From the left, “we need more money” to preserve current services and add new ones because people need help and we ought to help them.

Neither response does a thing to get at the root problem. At the root is our underlying system of government, the one that's perfectly producing the results we so unhappily fund.

Think of “underlying system” here like a computer's operating system. Our government's operating system is obsolete. It's the equivalent of DOS. It can no longer do what needs to be done.

Not recognizing that fact, we engage in all kinds of hopeful misdirection: We change out leaders, cut or add to budgets, appoint blue-ribbon commissions, install new technology, and yell and stamp our feet. Only somewhat more enlightened, we look for solutions in better policy, specifically better education policy, better health policy and so on.

The people, policies and technologies are all important things, but they are the software, the “programs” that execute education, health, public safety and all the other results we want from government. They are all constrained by the operating system. They cannot be any better than the operating system. In American governments in 2009, this software is all running on an antiquated operating system. We need a major upgrade.

Our current operating system is known as bureaucracy. Since California's Prop 13

in 1978 – and until recently – the cry has been “big government is the problem.”

What people really resent is bureaucracy. Government that works, that provides good value for tax dollars, is not the primary problem. Government is not always be the answer, but it’s there to do what we the people need it to do. It’s fair for citizens and taxpayers to demand that it work as effectively and efficiently as possible.

Few today remember that “bureaucracy,” the 20th century’s “operating system” for government, was specifically designed and adopted a hundred years ago to cure the ills of the 19th century’s operating system: the spoils system. Bureaucracy was largely successful in that task, at least in most parts of the country. Did you know that the word “bureaucracy” enjoyed a positive connotation then, because it was the solution?

AMERICA’S HISTORY OF GOVERNMENT “OPERATING SYSTEMS”			
Era	19 th Century	20 th Century	21 st Century
“Operating System”	Spoils System	Bureaucracy	[it still needs a name]
Most important (what people in the system feel most accountable for)	Loyalty	Rules	Results
Main tools	“Take care of our own” Patronage Money	Hierarchy Centralization Standardization Monopoly	Value Measurement “Customers” Networks Competition
Spirit	Tribal	Mechanical	Organic

For popular pictures of these modes of government, see my two favorite public administration movies. *Gangs of New York* exposes the raw, tribal nature of the spoils system. In *Ikiru* (To Live), by Japanese legend Akira Kurosawa, a low-level city official defies the bureaucracy and his subservient nature to create one meaningful thing before he dies. While this historical analysis is interesting – and the movies are entertaining – our times now demand better from our governments.

Just as Teddy Roosevelt, Woodrow Wilson and other Progressives led the charge a hundred years ago for bureaucracy, we now need to lead the charge for a new and

better operating system for government.

There is a better way. Courageous experimenters scattered across the country have been piecing it together. The accompanying “From-To” chart contrasts bureaucracy with this emerging operating system.

FROM: 20TH CENTURY BUREAUCRACY	TO: 21ST CENTURY GOVERNMENT
Statute & rule directed	Mission & results directed
Hierarchically driven	Team & network driven
Control centralized	Decentralization
Primarily accountable for conformance to rules	Primarily accountable for results for people
Manage costs	Manage value
Quality defined as adherence to standards	Quality is defined as meeting or exceeding customer expectations
Exclusive service mandate	Choice and competition
Focus on what’s best for government	Focus on what’s best for customers, citizens, and taxpayers

Three examples of a better operating system:

- **Charter Agencies: a better deal.** Six Iowa agencies responded when Governor Vilsack sought volunteers for a different, “post-bureaucratic deal.” In return for accountability for results and contributions to fix the budget gap, the agencies received an impressive package of bureaucracy-busting authority and flexibility. This initiative won a Harvard Innovation in American Government Award and the Council of State Government Innovation Award.
- **“Lean” in the public sector, too . . .** Many of America’s best companies “lean” their operations, streamlining and squeezing out waste. Governments are following suit. A basic air quality construction permit from the Iowa Department of Natural Resources that took 62 days now is issued in six days, with no compromise of environmental standards.
- **Make customers powerful inside government, too.** Just like anyone else, internal customers in government want responsive and cost-effective support services. Bureaucracy is not built that way. They can get great service at a

good price, however. Where appropriate, let users shop where they can get the best deal, inside government or out. Or where a single internal service provider makes more sense, give the money to the customers and let them negotiate service levels and rates, like a customer-owned cooperative. Both methods were part of “Entrepreneurial Management,” another innovation implemented in Iowa.

Changing operating systems is a monster task. So many people and institutions are invested in the old one. Or in opposing it. They know how to work it; it’s good for them. Do not assume, by the way, that all in government cling to the status quo. Many are just as frustrated with bureaucracy as the rest of us.

So far, advocates for this transformational change have felt more like Don Quixote than Bill Gates. But now should be the time it happens. State and local governments are deep into the fiscal crisis of a generation. They can’t print money. Once they burn through the stimulus, none of the choices look doable. The federal government will be there, too.

This crisis should not be wasted. It creates the best opportunity yet to ditch bureaucracy and install a far better operating system.

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