Chapter 4
Why the Transplant Doesn't Work

We lack an economic theory of the public non-market economy. Profiting from this void, market advocates have imposed the assumptions and axioms of neoclassical economics wholesale on the public sector. There are severe, tangible consequences to this colonization, which has drastically undermined government's ability to produce desired and intended results.

In the first part of this chapter, I present a series of arguments about why particular assumptions and precepts of the market model do not and cannot work when transplanted onto the public nonmarket.

These will be my rubrics:

Market mimicry: faux competition in a pseudo-market

- No buyers, no sellers, no exchange
- The powerless monopsonist
- Crowding-in
- The results-consequences disconnect
- The contractor sector
- The mythology of choice
- The real "principal-agent problem": fundamentally conflicting purposes
- The mythology of shrinking government
- Invisibility as a hallmark of effectiveness
- The (near) inability to measure what matters.

In the second part, I hone in on some of the particularly destructive effects of market mimicry:

- De-democratization
- A perversion of purpose: revenue-raising becomes a goal
- The conversion of citizens into "customers"
- The hollowing-out of government

J.A. Sekera, *The Public Economy in Crisis*,
SpringerBriefs in Economics, DOI 10.1007/978-3-319-40487-5_4

- Disregard for the biophysical aspects of production
- The frustrated quest for efficiency
- Performance measurement practices produce unintended and injurious results.

Market Assumptions and Precepts that Don't Fit a Nonmarket

Transplanting market theory and precepts onto the real-world operations of the public non-market yields results that are frequently and predictably destructive, sometimes disastrous. In previous chapters, I reviewed several such examples. In this chapter I will draw tighter connections between some of the fundamental assumptions and assertions of mainstream economics and the types of problems that inevitably arise when they are applied to the public non-market—problems that deeply affect people's lives.

My intent here is not to rehearse the multitude of challenges to neoclassical economics that have been and are being mounted by pluralist economists. Rather, I mean to identify those precepts and assumptions that are most troubling when transplanted to the public non-market. Identifying these defective connections will help reveal conceptual threads that can be woven into a new tapestry—a rich and realistic model of the public non-market economy.

My other intent is to draw new connections between economics and public administration. Just as there are many critics of neoclassical economics, there are likewise many critics, and criticisms, of the New Public Management, the Reinventing Government movement, and moves toward privatization. But for decades the two fields—economics and public administration—have been divorced.[1] The critical analyses of economics and of public administration take place now in different worlds. I hope to bring those two worlds closer together by examining the degradation of government capabilities through the lens of economics.

A final point to make before offering my analysis is that, although not everyone may endorse (or even be acquainted with), the theories of mainstream economics, its axioms are deeply ingrained in our society. Consider, for example, the market-centric notion of competitiveness, which has become, as William Davies (2014b) tells us, "one of the great unquestioned virtues of contemporary culture. . . a supreme moral and cultural virtue." Given how ingrained this and other market-centric values have become in our culture, it is not surprising that within government there is a prevailing acceptance of market and business superiority. I have discussed how the seeds for this credulity within government were planted

[1]"Public choice" theory, of course, purportedly explains government from an economics perspective. However, as I will argue in Chap. 6, it rests on manifestly anti-government axioms and market-centric assertions rather than offering a coherent, explanatory economic analysis.

over three decades ago. The belief system, and accompanying norms of behavior, are now firmly implanted. James Galbraith (2008, p. xvii) talks about the "Soviet-like" double reality that exists in regard to "the cult of the free market": the governing "legitimating" myth [is] hardly to be taken seriously by those on the inside", i.e., those who propagate it. However, many—probably the majority—in government have bought into the myth. But it's not enough to understand that those on the "inside" know better. We must develop an alternative to the myth, a legitimate, pragmatic "idea infrastructure" (Mcgarity 2013a, b) that can supplant myths with valid concepts. I will offer such an alternative in Chap. 5.

Market Mimicry: Faux Competition in a Pseudo-Market

The entrenched government reform agenda in the U.S., and in many European countries, has been based on the assertion that there is a need for more market- and market-like mechanisms in government. The fundamental idea, as Kettl says (1993, p. 2), is to "replace the government's monopoly with the discipline of vigorous competition." He labels it "the competition prescription".

There have been two kinds of reformers, Kettl says, those who want to shrink government[2] and those who want to make government work better. But in either case, reformers have offered the same prescription: marketize government, either by contracting out its work or by transplanting market (business) values and practices onto what's left.[3]

When a government activity is marketized or privatized, it is widely believed that "market mechanisms" have been introduced into government because a ritual resembling "competition" has been undertaken.[4] But there is not competition. There is merely faux competition in a pseudo-market. Competition—as the term is generally understood, and as used in economics—is impossible in the production of public products (i.e., taxpayer-funded goods and services, as I will discuss in Chap. 5).

I should note that although the term "privatization" is not used in economics, as a popularized stand-in for the values and precepts of mainstream economics it is highly relevant to my analysis. "Privatization" as used in the United States, is

[2]It has been pointed out that many of the "shrink government" reformers do not aim actually to reduce the size of government, but rather to transform its operations into profit-making, private wealth-generating arrangements for corporations. Contracted-out government is, in fact, the source of the much-remarked "growth of government".

[3]Recently, several new public administration theories have emerged, which attempt to offer alternative prescriptions, but, as I discussed earlier, these movements have neither engaged with the fundamental problem of a flawed economic model, nor have they become practice except in limited instances.

[4]Even Kettl, who questions the whole approach, believes (1993, p. vii) that genuine market mechanisms are introduced.

understood to mean contracting out government services to private businesses. Virtually every source I found in my research, and certainly the popular media, accepts the trope that "privatizing" government introduces competition and the advantages of the market. It is a virtually unquestioned assumption. But the assumption is false.

The term "privatization" is duplicitous, in that the putative virtues of the market, such as efficiency and cost-effectiveness, are infrequently realized by contracting out to private firms. In fact, contracting out often results in higher costs and inefficiencies (as I describe later). Virtually no one points out the deceptiveness. One exception is Juha Siltala, who has coined phrases that emphasize the rampant duplicity. In his essay on "New Public Management: The Evidence-Based Worst Practice?" (2013, pp. 469, 472, 473, 475, 477), Siltala probes "quasimarkets," "proxy markets" and "pseudoprivatization."

Now back to the pseudo-market and faux competition.

In standard microeconomics, a competitive market assumes the following conditions (Goodwin et al. 2014; Kettle 1993):

1. a large number of buyers and sellers;
2. relatively undifferentiated goods and services, so that buyers make decisions based on price;
3. free entry and exit;
4. arms-length transactions between sellers and buyers;
5. buyers and sellers with perfect information;
6. reward for success and punishment for failure.[5]

None of these applies to the public nonmarket, where

- Government is the single purchaser, i.e., a monopsonist (albeit a powerless one, as explained later);
- As buyer, government decisions are made on a number of considerations of which price is but one. Also, the executive branch is frequently (as in the case of defense contracting) required by legislation to contract on a fixed-cost-plus-fee basis, in which case the government is denied the ability to purchase at lowest cost.
- Government agencies (the producers) cannot choose either to create themselves or to go out of business.
- Purchasing transactions between the government and its suppliers are often not at arms-length; they are characterized more usually by mutual dependence (Kettl 1993, pp. 12, 182–83)
- Government actors generally lack information about which price is lowest.[6]

[5]An interpretation stressed by Kettl (1993, p. 180).

[6]This problem is also present in the market, but much moreso in the public nonmarket. Regarding government's inability to determine best price, see the Project on Government Operation's report "Bad Business" (Chassey and Amey 2011).

- Because of the uncommon complexity, difficulty and sometimes impossibility of measuring results, income to the producer (government agency) is not based on measures of success or failure.

Nor are the following *implicit assumptions* about competitive markets applicable:

- Buyers are using their own money,
- Sellers can decide what to produce and sell,
- Goods and services are paid for by the person or entity receiving them,
- Buyers are able to "see" what they are paying for,

for in the public nonmarket

- payment is made collectively by taxpayers;
- legislators decide the uses to which collectively-raised money will be put, i.e., what government will produce;
- a third party—a body of elected representatives—is the direct payer;
- taxpayers may not be able to see, or recognize, much of what their taxes buy.

I will elaborate on each of these points in the remainder of this chapter, and in Chap. 5, where I discuss elements of public non-market production."

No Buyers, No Sellers, No Exchange

In the public products economy, goods and services are supplied free at the point of delivery. (When there are fees, these are not meant to cover the entire cost of production and supply.) In contrast to the market model, there are no buyers or sellers; there is no "exchange."

In the market model, individuals buy goods and services to maximize their own utility (or satisfaction). The buyer is the beneficiary. Buyers pay using their own money; if they have borrowed, they must repay with their own money. By contrast, in the public non-market economy, there are no "buyers" in the usual sense of that term: goods and services have been paid for collectively, through taxes.

Rather than "buyers," the public non-market has a "purchasing agent" (the government agency doing the buying). This agent is not the beneficiary and is not using its own money. The Purchasing Agent uses taxpayer money; the beneficiary is the recipient or user of the publicly provided good or service.

The Powerless Monopsonist

In economics, monopsony exists when there is a market with a single buyer. Microeconomic theory tells us that a monopsonist can dictate terms to its suppliers

and drive prices down. However, government as a monopsonist buyer is often rendered powerless by private interests acting through political force or by the ambient pressure to contract out. Three examples:

- When Medicare Part D legislation was being considered, the drug lobby succeeded in prohibiting the government from being able to negotiate drug prices (Pierce 2009). "The drug lobby worked hard to ensure Medicare wouldn't be allowed to cut into the profits which would flow to big Pharma thanks to millions of new customers delivered to them by Part D." The prices that the government pays for drugs through Part D are 30 % higher on average than the prices it pays for drugs for recipients of Medicaid, which is not constrained by a prohibition against negotiating prices.
- Due to a convoluted procurement process, which at one point involved a private contractor managing part of the procurement process, the government wound up paying higher rates for a phone system than federal agencies could have gotten if they had been allowed to pay commercially-available rates (Kettl 1993, pp. 77, 94–95).
- "Medicare's authorizing legislation…requires it to contract on a cost basis, prohibiting CMS from entering into fixed-price or performance-based contracts" (Frederickson and Frederickson 2006, p. 178).

Crowding-in

One of the axioms of mainstream economics is that government spending "crowds out" private spending, causing economic inefficiencies. This long-held assertion has recently been disproven. A study by the International Monetary Fund (Economist 2014b) found "that in rich countries at least, infrastructure spending can significantly boost growth through higher demand in the short run and through higher supply in the long run." The results of the study, writes *The Economist*, "were striking. On average, an unexpected increase in public investment equal to 1 % of GDP boosted GDP by an underwhelming but still beneficial 0.4 % in the same year and by a more impressive 1.5 % four years later. The extra spending did not result in unsustainable debts; quite the opposite. Thanks to higher GDP, the debt-to-GDP ratio fell by 0.9 % points in the first year and four percentage points after four years." A World Bank study of low-income countries (Eden and Kray 2014) also disproved the "crowding-out" claim; in fact, the researchers found strong evidence of crowding in: "an extra dollar of government investment raises private investment by roughly two dollars, and output by 1.5 dollars." So we have here another case in which traditional neoclassical economic theory is inapplicable, or wrong, and should be put aside.

The Results-Consequences Disconnect

As Donald Kettl points out (1993, p. 180): "The much-praised self-discipline [efficiency] of the market exists only when competition can reward success and punish failure."

Success or failure in the market is measured in simple, financial terms. Profitability means continued survival; loss of profits results, eventually, in business demise. Money is both the fuel for production and the gauge by which success, or failure, is determined.

The public non-market is not blessed with such simplicity. In the domain of the public nonmarket, money is also the fuel for production, but it is not—or should not be—the gauge of success. As I argue in Chap. 5, the driver in the public domain is not profit-maximization; rather, it is the meeting of identified public needs, expressed through electoral collective choice. So success must be gauged by the extent to which the identified need was met. Such measurement is uncommonly difficult—a theme I develop later when I discuss the elements of nonmarket production. For now, the point is that, since we lack effective measures of success or failure, one of the conceptual foundations of the market model is missing. So a producer of clean air (Environmental Protection Agency), a producer of warnings of potentially disastrous weather conditions (National Weather Service), or a producer of healthful recreation (state parks) have all faced funding cuts regardless of their success. Conversely, public economic development subsidies to businesses continue, despite their widely-documented lack of success in achieving their stated goals.[7] In sum, there is a results-consequences disconnect in the public non-market that does not exist in the market.

A vast performance measurement/performance management industry has been attempting to make results measurable in the public sector, such that good results should be rewarded and poor results punished (Christensen and Laegreid 2011). Thus far this goal has not been achieved—a point to which I shall return.

The Contractor Sector

Some researchers who have studied government contracting believe that a generally unrecognized or under-appreciated third sector exists—neither public nor private but rather a "contractor sector". For example, the Project on Government Oversight (POGO), conducting an extensive study of federal contracting in 2011, came to the realization that "there are three labor markets (the private sector, the public sector, and the contractor sector) and that salaries, compensation, overhead, and profit

[7]Good Jobs First has extensively documented the failures of economic development programs to create jobs. See Story (2012a–c) for a *New York Times* series on "The United States of Subsidies."

differ among the three." The POGO study (Amey 2012a) showed that "the federal government approves service contract billing rates—deemed fair and reasonable—that pay contractors 1.83 times more than the government pays federal employees in total compensation, and more than 2 times the total compensation paid in the private sector for comparable services." In his book on government contracting, Kettl (1993, pp. 94–95) cited one case in which federal agencies were paying 20 % higher rates than those commercially available. Here we have another example—the contractor sector—in which "competition" does not exist or work as the market model predicts.

The Mythology of Choice

Most mainstream economists (and some public administration scholars[8]) argue that taxes force involuntary choice while markets don't. This is a myth. Both the market and the public non-market require payment and both permit choice of what to pay for.

In the market, there is choice about *what* to buy and *how much* to pay for it. There is no choice about *whether* to pay for it. Payment is required.

So too in the public non-market: *whether* to pay is not voluntary. Paying taxes is required. And, as in the market, w*hat* to pay for and *how much* of it is voluntary. Society can have more or less public transit, greater or less assurance of drug safety, more or fewer public parks or safe bicycle lanes in the city, and so forth. In this case, the choices are made at the ballot box. Through their choice of elected representatives, voters determine the type and quantity of public goods and services that will be created. That the choice is delegated does not negate the fact that there is choice. It is time to expose and rebut the myth that there is no choice in the public sector and only in the market.

The Real Principal-Agent Problem: Fundamentally Conflicting Purposes

Principal-agent theory in neoclassical economics addresses differing motivations between principals and agents, as between supervisors and employees or firms and contractors. Theoretical discussions deal with issues like "shirking" by agents. But principal-agent theory does not address the highly significant if generally unremarked problem that occurs when a public principal (government) contracts with a private-for-profit agent (a business) to deliver public goods or services. In this

[8]James Q. Wilson (1989) goes so far as to write that "public enterprise is funded with money taken from us by force" (p. 348).

situation the mission of the agent (to make a profit) is in conflict with the raison d'être of the principal (to meet a public need, not to generate revenue).

And the problem of fundamental conflict goes deeper than merely identifying profit as a goal. Two fundamentals of profit-generation that are often overlooked in discussions about contracting-out, and in principal-agent theory, are contractors' needs for growth and for repeat business. Growth is the preferred, and sometimes the only, method for increasing profits. The conflict in fundamental purpose is particularly problematic, and can be morally repugnant, when the public "product" being "delivered" is public safety. The most egregious example may be the ongoing privatization of prisons and of the probation system, where the avenue to increased profits is more prisoners and more probationers, and where private-for-profit "corrections" corporations draft and campaign to ensure the passage of laws to increase the number of prisoners and/or the prescribed length of prison terms (Center for Media and Democracy 2015b).

The second way the conflict manifests itself is through efforts to get repeat business so as to sustain profitability. Contractors work to ensure that they get future contracts from their federal "principals." In *Sharing Power*, Kettl (1993) wrote at length about the relationship of "mutual dependency" that grows between federal contractors and the government. Contractors go to great lengths to guarantee continued demand from their single buyer.

In textbook principal-agent theory, the "problem" is normally discussed in antiseptic, morally-neutral terms. But what occurs in public-private principal-agent relationships can be a perversion of purpose. The operations of the public agency can be transformed from meeting a public need to, instead, work that is designed to exploit opportunities for growth or guarantee repeat business.

In the market, sustained profit-generation is the legitimate purpose of business, embodied in law and accepted almost universally in our society. My point is not to criticize these behaviors in the market, but to point to a fundamental conflict that is generally overlooked.

Consider a remarkable example of how the issue is overlooked. In his textbook on *Economics of the Public Sector* Joseph Stiglitz (2000, pp. 202–03) describes the principal-agent problem as one in which citizens (principals) must get public servants (agents) to act in the public interest. Stiglitz has chosen to rely on the Public Choice school of economics, with its claim that self-interest is the motivator of public employees, a basic assumption of the market model. So this major text on the public economy is oblivious to the real-world conflict of purpose that I describe here.

The Mythology of Shrinking Government

One of the maxims of privatizers is that if government operations are contracted out to marketplace providers (businesses) government will be more efficient. Market-centric economics teaches that the market is more efficient than government

(in part due to the presumptive "distortionary" effect of taxes). Even some public administration theorists, like James Q. Wilson, aver that the market is superior for achieving efficiency.[9]

Accordingly, the aim of government reformers has been to move an increasing share of government operations into the hands of business. Some cities boast of having only a handful of employees, as private companies run virtually all city services (Segal 2012; *Government Technology* 1995). And the Reinventing Government initiative of the Clinton administration set out to reduce the size of the federal government workforce by as much as 12 % (Moe 1994, pp. 114, 120) Which was done, according to congressional testimony in 2013 by Elaine Kamarck of the Brookings Institution, whose biography says she "created the National Performance Review" (the formal name of Clinton's Reinventing Government Initiative), and who boasted that "We reduced the federal workforce by 426,200 between January 1993 and September 2000. Cuts occurred in 13 out of 14 departments, making the federal government in 2000 the smallest government since Dwight D. Eisenhower was president" (Kamarck 2013, 2016).

Reducing the number of government employees, however, is not the same as reducing the size of government, especially when the reduction is achieved by contracting out. As Moe (1994, p. 120) told us:

> Equating the size of the federal government with the number of civil servants is a widely held, but misleading, belief and practice. In point of fact, the number of civil servants in the federal government relative to the overall U.S. work force, the fairest measure, has been steadily declining during the very period when the federal government has been accused of growing. In 1953, for instance, the federal work force as a percentage of the civilian work force stood at 3.48 % while in 1993 this percentage figure had fallen to 2.28 %, a decrease of 34.5 % during a period when the federal government was assigned many new functions (e.g., environmental protection).
>
> One misleading element in the linking of federal civil service totals to the size (whatever that term may mean) of government is that as the number of civil servants has decreased, the number of third-party personnel (principally contractor employees) has steadily increased…

In fact, "contracting out masks the true size of government" (Frederickson and Frederickson 2006, p. 21). Writing about the "true size of government" in 2002, Paul Light (2003) found that government grew overall but that the civil service was not the source. Federal civilian employment fell by 2.6 % between 1999 and 2002, while the number of private contractor employees grew by 16 %. As the Project on Government Oversight explained in 2012 (Amey 2012a): "The first myth of service contracting involves the notion that when the federal government outsources work to contractors, contractor employees are not part of 'big government.'…Because they are generally not seen as part of the total government workforce, they are spared the wrath of budget hawks calling for personnel reductions and cuts in

[9]Wilson (1989) writes: "If the preceding chapters have made nothing else clear, they should have persuaded the reader that government bureaus are less likely than private agencies to operate efficiently" (p. 349).

benefits. The number of contractor employees in the federal workforce is in excess of 7 million, nearly four times the size of the federal employee workforce." (Emphasis added).

Invisibility Is a Hallmark of Effectiveness

In the market, products and services are tangible and visible. When buyers purchase a good or service, they are aware of what they bought. In fact the market model is premised on the assumption that buyers have information about the product/service and know its price.

Many of the products of the public nonmarket, however, are intangible and often imperceptible, or are ubiquitous and taken for granted and therefore unseen. In many cases, the very *absence* of an undesirable condition (faulty wiring, contaminated food) is what government has produced.

Thus, when government is effective, its outputs and products may be largely invisible. People don't notice the absence of potholes, the fact their bank accounts are insured or street lights come on every night, the presence of clean air or potable water. They are unaware of the public R&D investments—paid for through their taxes—that led to the Google search algorithm and the technologies behind the iPhone (Mazzucato 2011; Upbin 2013; Jones 2013). And it is impossible for people to know about disasters that don't happen due to government action or intervention. Invisibility as effectiveness is one of the paradoxes of public goods.

Infrastructure in general is a product of government that is largely unseen, and underappreciated when effective. Infrastructure only becomes visible when it breaks down. Stephen Graham (2010) describes the invisibility of infrastructure in *Disrupted Cities: When Infrastructure Fails.* Citing Bowker and Star (1999), he notes that "good, usable [infrastructure] systems disappear almost by definition. The easier they are to use the harder they are to see. As well, most of the time, the bigger they are, the harder they are to see" (p. 6).

For Bowker and Star, one of the defining characteristics of infrastructure is that it "*Becomes visible upon breakdown.* The normally invisible quality of working infrastructure becomes visible when it breaks: the server is down, the bridge washes out, there is a power blackout" (p. 35).

Even innovation is invisible when it comes to infrastructure. Innovations that make bridges safer or longer lasting, roads ditto, electricity more reliable or public transit smoother go largely unnoticed. When public infrastructure agencies innovate and make things easier to use, those public goods become even more invisible, so innovation actually causes *greater* invisibility.

In *The Black Swan: The Impact of the Highly Improbable*, Nassim Taleb (2010) describes the paradox of the invisibility of disasters that don't happen. We don't know about some things government does "precisely because they were successful." "Assume," he says, "that a legislator with courage, influence, intellect and vision manages to enact a law that goes into effect…on September 10, 2001; it

imposes the continuously locked bullet proof doors in every cockpit (at high cost to struggling airlines)…The person who imposed locks on cockpit doors gets no statues in public squares, not so much as a quick mention of his contribution in his obituary." On the contrary, "Seeing how superfluous his measure was, and how it squandered resources, the public, with great help from airline[s], might well boot him out of office" (p. xxvii).

The (Near) Inability to Measure What Matters

Measuring market success or failure is easy: a firm makes profits and stays in business; it goes into the red and it eventually dies (absent a government bail-out).

In the public nonmarket, nothing is so simple. The federal government itself has created two successive, massive performance measurement systems "GPRA" and "PART," but there is fairly broad agreement that these efforts (discussed below) have generally failed to deliver on their promises (e.g., Clark 2013, 2014; Radin 2011a; Anechiarico 2007; Joyce 2014). It is with regard to this inability to adequately, accurately, and meaningfully assess the results of public goods production, and to let the citizenry know what they want and need to know, that market model tenets fail most miserably.

The implementation of performance measurement in the public sector is advancing across government and through all levels of public education. Most readers, and much of the American public, are familiar with the measurement systems of No Child Left Behind and the Common Core standards in K-12 education. Few are aware of other massive performance measurement schemes imposed in the name of government accountability. In health care, the Senate passed legislation in April 2015 to revamp Medicare's payment system to pay doctors based on "performance" and "quality" of medical care—terms yet to be defined. In 2015 the Obama Administration attempted to roll out a new college rating and ranking system for all colleges and universities in the U.S., tied to federal student financial aid (Hernandez 2014). After an outcry from educators and universities, the ambitious plan was scaled back (Shear 2015) to a "scorecard." And despite the widely-publicized disasters of the Veterans Administration pay-for-performance system, it has neither been cancelled nor scaled back.

An entire industry dedicated to government performance measurement has spawned a vast literature on assessing processes and measuring results. Some of the key issues and problems have been commonly identified, others barely recognized. In *The Dynamics of Performance Management*, performance measurement expert Donald P. Moynihan (2008) cites numerous examples of how performance measurement programs and approaches have failed, asking if we've simply seen "Reform in Search of a Theory?" New performance management systems are repeatedly legislated without regard to the failures of past and present systems. And none takes into consideration the unique characteristics of the public non-market.

The persisting inability to measure and communicate the results of government production of goods and services underscores the need for a comprehensive economic model of the public nonmarket. Problems specific to performance measurement the *public non-market* include:

Goal Definition

Profit maximization is not—or should not be—the goal of government (though due to perversion of purpose, income generation is increasingly being set as a government ambition). If not profit, then what? Within the vast and growing performance measurement industry, hundreds of thousands, more likely millions, of "experts" have spent decades trying to figure out how to define public purpose, public value or to just define the goals of individual agencies or government programs.

Although performance measurement systems were initiated in the federal government during the late 1970s,[10] determined efforts to define goals began with the Reagan administration and its push for what it called "management improvement" (a name used to veil the actual intent of contracting out) (Kettl 1993, p. 43). In *Sharing Power* Kettl provides a mini-case-study in the complexity of goal definition in the public non-market as he describes the Reagan administration's struggles to define goals.

Their effort at goal definition ran into difficulties for a host of reasons unique to the public non-market. For example, the Reagan appointees had failed to appreciate that pursing "public goals as embodied in law…is the central task of government" (Kettl 1993, p. 40). In addition to the inherent complexities of defining public purpose. the Reagan administration had "efficiency" as its stated goal, and the notion of efficiency had to be rendered into something measurable. Kettl reports that it often took 18 months and sometimes two years to assemble the data required for performance criteria for required work statements. Not the embodiment of efficiency. This occurred in the 1980s, but as of yet, there still is no effective solution for the best way to go about identifying goals and setting measurable objectives.

Goal Ambiguity

The "Superfund" program offers an example of the ambiguity of many public sector goals. Created by legislation in 1980, during the last days of the Carter administration, the purpose of the program was to clean up toxic waste sites around the nation. But many questions arose. What is the definition of "toxic"? What is/is not a carcinogen? What were the guidelines for a safe and thorough clean-up? The ambiguities resulted in a ballooning of the projected number of sites that had to be cleaned up, from 400 initially to 378,000 by 1989.

[10]Specifically, as part of the Comprehensive Employment and Training Act under the U.S. Dept. of Labor, where I worked at the time.

Conflicting Goals

Public sector agencies are often handed conflicting goals in their authorizing legislation (see Radin 2012; Kettle 1993). One frequently-cited example is the Food and Drug Administration, mandated to approve only those drugs determined to be safe, but also to help "speed innovations" to market.

Invisibility

The paradox of invisibility as a hallmark of effectiveness (as discussed above) poses one of the largest problems in measuring results, yet is a hurdle scarcely recognized. How is it possible to measure the effectiveness of preventing disasters that do not happen? Perhaps a new kind of "counterfactual" approach is needed. Invisibility also presents a problem in terms of messaging what matters. It is possible to *measure* the quality of common and ubiquitous public goods such as safe, un-potholed streets, clean air and clean water, but the challenge is how to *message* the effectiveness of such products, given that they are only noticed upon breakdown.

The "Hollow-State" Problem

In their book about the problems of measuring results in the "hollow state," Frederickson and Frederickson surprisingly note that "most" of the programs and services of the federal government are now carried out by third parties. One of their main points is that the performance management systems that have been imposed on the federal government do not take this reality into account, since there "is an implicit assumption of direct government provision." But, because of widespread contracting-out, agencies are "being held responsible for performance of third parties over which they have limited control" (Frederickson and Frederickson 2006).

Multiple Entities to Satisfy

In the market, the producer/seller has only one entity to satisfy with its products: the customer who is buying. In the public nonmarket there are multiple entities to satisfy: (1) the recipients or beneficiaries of the public products or services; (2) the elected representatives in the legislature (Congress, state legislature or city/county council); and (3) voters. In addition, agencies must assess and communicate whether legislated purposes have been met. No performance measurement system, at least at the national level, addresses this complexity.

Opacity

Various types of opacity of the public nonmarket environment make it difficult for voters and taxpayers to appreciate the results of their electoral choices or to see what they have paid for through taxes.

- Obscured choice: Collective choice is a process with built-in opacity. Voters, the actual originators of the goods and services that the state provides, often do not "see" the real, practical impacts of their decisions. I.e., there is frequently a lack of visible connection between the act of voting and the results of the choices

made. People cannot easily associate their choice of representatives with specific impacts on their daily lives.
- Obscured purchase: Public goods are paid for collectively, through taxes, a function that obscures the connection between payment and the thing purchased, in contrast to customers in the market who readily see what they buy (albeit, not the hidden defects in what they buy).

These forms of opacity mean that it is difficult to trace cause and effect for purposes of performance measurement. They also mean that extraordinary effort is required to communicate the results of electoral choices and collective payment to those who vote and who pay taxes. With few exceptions, such efforts are not made in the United States today.

The "Submerged State"

Some public products and services remain hidden by design, a deliberate strategy described by Cornell political scientist Suzanne Mettler in her critically important work on "the submerged state." In 2008, Mettler showed that although 96 % of Americans have participated in government programs, most surveyed deny it, insisting that they "have not used a government social program."[11] Among those who claimed they didn't get government benefits were 44 % of Social Security recipients, 43 % of unemployment insurance recipients, 53 % of federal student loan recipients and 60 % of those who took the home mortgage interest deduction. Mettler has argued that influential, private interests do not want people to know how much they are receiving from government. As Mettler writes, the state's role has been intentionally submerged and shrouded, "making it largely invisible to ordinary citizens."

A reviewer of Mettler's book, *The Submerged State: How Invisible Government Policies are Undermining American Democracy,* notes that "Opinion polling demonstrates that citizens are largely unaware of the existence of the submerged state; consequently they do not give government due credit for its intervention or hold it to account in an informed way" (Hackett 2012). Tax expenditure programs, in particular, "conceal the gears of government," a strategy looked to by Republicans and Democrats alike. Writing about Mettler's work, Eduardo Porter (2015) observes that "the strategy carries a cost. Such spending through the tax code not only offered the false promise of smaller government. Its most insidious effect was to hide what the government does and, notably, to shield from political debate which people it benefits most… Professor Mettler argues it has helped cement the image of a government that most Americans wrongly consider largely irrelevant to their lives."

[11]Mettler (2010). Mettler's 2012 *New York Times* Op Ed with John Sides, "We Are the 96 %" notes that the 4 % who have not used a government program are mostly young people who are not yet eligible for the benefit programs.

Tax Expenditures

Government programs that are funded through tax expenditures, rather than through appropriations, are effectively not subject to performance measurement. Tax expenditure programs comprise a mostly concealed, but enormous, part of the federal government (as I discuss in Chap. 5). Since 1994, the GAO has been urging Congress to include tax expenditure programs in its performance measurement requirements, to no avail. The GAO reported that "An estimated $1 trillion in revenue was forgone through tax expenditures in fiscal year 2011," but noted that federal agencies were not required by the Government Performance and Results Modernization Act of 2010[12] to include their tax expenditure programs. A 2013 GAO report (2013a, p. 15) concluded: "With so much spending going through the tax code in the form of tax expenditures, the need to determine whether this spending is achieving its purpose becomes more pressing."

Pay for Performance

Pay-for-performance schemes invariably fail to deliver the improvements intended; instead, they produce negative, and sometimes disastrous, unintended consequences, as I described in Chap. 2.

Measuring Long-Term Positive Externalities

Many public goods and services are created to produce long-term positive externalities. Public education, public health programs, clean air and clean water regulations, job-training and workforce development programs, early childhood education programs are but a few examples.

Only rarely have attempts been made to determine whether the intended, long-term results were achieved.[13]

Economist Jeffrey Sachs (2013) has called for "thinking long-term." In an Op Ed he reminded readers that "the United States government has a strong track record of success in long-term public-private investment programs. Federal agencies helped support and guide the birth of the computer age, the Internet, the Human Genome Project, the federal highway system, the GPS revolution, the global fight against AIDS and, of course, the space program." Sachs then (2014) advocated a "sustainable development economics" and public-private "complementarity" that would see public—along with private—investment in "infrastructure, human capital, intellectual capital, natural capital and social capital."

Interested private investors know how to evaluate such investments if made: did they produce a profit? But how will the public investments be evaluated? Will the goals of the public investment be in the public interest, unambiguously written,

[12]GPRAMA called for a "framework" for evaluating tax expenditure programs, but as of the 2013 GAO report, it had not been implemented.

[13]E.g., cost-benefit analyses of the Perry Preschool program in the 1990, which estimated levels of lifetime earnings and lifetime tax contributions, and, more recently, a study by Chetty et al. (2014) on teacher impact on long-term student outcomes.

clear and not conflicting, measurable? And how many years into the future will the long-term positive externalities of such public investments be measured?

Non-use of Results

Enormous effort has been made and many millions spent on public sector performance measurement at all levels of government. At the federal level, two massive government-wide programs were created—the Government Performance and Results Act (GPRA) of 1993, enacted concurrently with the Reinventing Government initiative of the Clinton administration, and the Program Assessment Rating Tool (PART), created in 2002 by the Bush administration. Then GPRA was amended by the GPRA Modernization Act (GPRAMA) of January 2010, signed by President Obama in January 2011.

Many studies have found that the results of these performance rating systems have gone unused by government managers for program improvement as well as by Congress when making funding decisions (Moynihan and Lavertu 2012; GAO 2014; Radin 2011b, 2012; Metzenbaum 2013, 2014; Frederickson and Frederickson 2006, p. 184). Clearly, these attempts to impose market-like "accountability" regimens on the public nonmarket have not delivered the promised market-like results.

This is hardly to say that performance measurement in the public domain cannot work. It can (as has been demonstrated in limited cases), and some believe it must (Ellig et al. 2011). But approaching performance measurement from the perspective of "accountability," and trying to mimic the market, is not the way to go about it.

Effects of Market-Mimicry

So let's look at some specific results of practices of market- mimicry in the public non-market economy.

De-democratization

The most corrosive aspect of the marketization of government occasioned by the New Public Management and Reinventing Government movements, backed by mainstream economics, is their threat to democratic governance.

Economist Servaas Storm (2015), crediting John Kenneth Galbraith, talked about the power of mainstream economics to "de-democratize" nation-states:

> By claiming that their economics has no content of power and politics but is neutral, mainstream economists have become "useful" as the influential and invaluable allies of the powers that be… They help de-democratize economic policy, which is quintessentially political and should be the subject of intense and informed democratic debate.

Ronald Moe and Laurence Lynn are two of a small cohort of analysts of public administration who have made the connection between government marketization and de-democratization and pointed to the threat the movement poses to our constitutional foundation for democracy.

Here is Moe (1994, pp. 114, 112), critiquing the Clinton/Gore initiative on "Reinventing Government":

> The [old] administrative management paradigm with its emphasis on the Constitution, statutory controls, hierarchical lines of responsibility to the President, distinctive legal character of the governmental and private sectors, and the need for a cadre of nonpartisan professional managers ultimately responsible not only to the President but to Congress as well is depicted as the paradigm that failed…[There has been] an intentional break in management philosophy from earlier organizational management studies going back to the Progressive Era and indeed, in a very real sense, back to the founding of the Republic. [Earlier reform movements] all emphasized the need for democratic accountability of departmental and agency officers to the President and his central management agencies and through these institutions to the Congress.

And here is Lynn (2001), critiquing New Public Management:

> Public administration as a profession, having let lapse the moral and intellectual authority conferred by its own traditions, mounts an unduly weak challenge to the superficial thinking and easy answers of the many new paradigms of governance and public service. As a result, literature and discourse too often lack the recognition that reformers of institutions and civic philosophies must show how the capacity to effect public purposes and accountability to the polity will be enhanced in a manner that comports with our Constitution and our republican institutions.

If the general failure to connect market-driven reforms with their impact on democratic governance is so obvious and fundamental a threat to our constitutional form of government, why has this impact been so overlooked in public administration scholarship and economics? The simple answer may be that it's no longer obvious, given the market triumphalism of the last half-century in the United States. A more sophisticated answer may be that, **in the absence of any adequate positive model of the public nonmarket, it is exceedingly difficult to explain and defend the dynamics of an economic domain that differ intrinsically from those of the market**.

A few political scientists, a few scholars of public administration, and a few economists have pointed out some of the ways in which the public domain differs from the market, specifically calling attention to the political process. Economist Richard Musgrave, writing in the mid 20th century and building upon the ideas of 19th–century European public finance scholars, argued that "A political process must be substituted for the market mechanism" in originating and allocating public goods and services (Albert and Hahnel 1990; Desmarais-Tremblay 2013. In the 1990s public administration scholars Stewart Ranson and John Stewart (1989, p. 7; also 1994) argued that public goods and services "are provided following a

collective choice and financed by collective funds" and that collective choice is a process through which "differing interests are resolved, and conflict and argument lead to decision and action."

But the path laid by thinkers like Musgrave, Ranson and Stewart seems to have been cut short. In *Classics in the Theory of Public Finance*, Musgrave and Peacock excerpted the writings of early 20th century scholars of public finance, some of which hint at causes that may have contributed to its ending. (These authors used the terms "financial sociology" and "public finance"; they didn't speak of the public nonmarket.) German sociologist Rudolf Goldscheid, for example (1925/1958), said that "it is the most serious deficiency of our whole body of social science that we lack of a theory of financial sociology and that the problems of public finance remain without sociological foundation…[T]he science of public finance is that part of the social sciences which has lagged furthest behind during recent decades an which indeed is less advanced now than it was in the past." He cited as obstacles to the development of such a theory the rise both of socialism and of capitalism. "Marx so completely neglected the State in his conclusions that he failed to observe how its expropriation helped the private expropriators." As a consequence, "Capitalists have used the public household on the largest scale to enhance their profits and extend their power since capitalism has emerged triumphant in the form of finance capital."

Whatever the reason the path ended, we still lack a fully-drawn theory of how goods and services originate through collective choice in a democratic nation-state.[14] We need an economic theory that accounts for the public nonmarket mechanism by which the citizenry choose and pay collectively. We need a theory that recognizes the centrality of the election of representatives who legislate goods and services into being, and which lays out the forces that drive and constrain nonmarket production, including an explanation of effective and efficient production in the public nonmarket. The theory must recognize that this complex mechanism through which products and services are originated, and the public production process itself, rest on the foundation of the democratic process and constitutional governance. (See Chap. 5 for elements of such a theory.)

The Perversion of Purpose: Revenue-Raising Becomes a Goal

With the marketization of government, public agencies lose sight of their mission and turn to revenue-raising as a goal in and of itself. I described examples of this perversion of public purpose in Chap. 2.

[14]Note that, for those cited in the preceding two paragraphs, voting as collective choice stands in stark and important contrast to the market model's other and various explanations of collective choice.

Another example: in order to raise cash, cities are selling property tax liens to private debt collectors who can then legally foreclose, seize and sell property. Homeowners who are behind on tax payments, sometimes by only a few hundreds of dollars, have lost their homes due to such foreclosures (Hogan 2014) There are hundreds of examples of public agencies compelled or persuaded to make the pursuit of revenue their mission.

The Conversion of Citizens into "Customers"

The influence of mainstream economic thinking has fostered a market-myopic view not simply of the economy but of our society as a whole, especially in the US, where university students and hospital patients alike are now being re-branded as "customers." Use of the term has been enormously damaging. In a paper examining the effects of "economics-driven" political culture and public administration, Richard Box (1998, p. 38) warns that "Today's expansion of economic thinking and the potential separation of expert service provider (public service professional) from customer (citizen) may be one of the most serious threats to public service values Americans have experienced." And another paper on public sector "customer service" (Fountain 2001) finds that "customer service techniques and tools applied to government may lead to increased political inequality."

The Hollowing-Out of Government

The extent to which government has been hollowed-out is not fully appreciated by the public or by schools of public administration (Frederickson and Frederickson pp. 10, 152), whether we are speaking of the elimination of hundreds of thousands of civil service positions or the resultant incapacitation of remaining workers to effectively do their jobs.

According to research by the Project on Government Oversight (POGO) (Chassey and Amey 2011) "approximately one-quarter of all discretionary spending now goes to service contractors." POGO reports (Amey 2012a) that "The number of contractor employees in the federal workforce is in excess of 7 million, nearly four times the size of the federal employee workforce (which is over 2 million)."

The consequence of this transformation is not just a dwindling public staff but loss of a tradition of expertise and loss of institutional memory. Government is the most complex "conglomerate" in our economy, requiring a staggering variety of types of expertise. Consider, for example, the range and depth of expertise required for food and drug safety supervision and regulation; for banking supervision and regulation; for road construction and maintenance; for the operation of public health

programs; for public transit maintenance of buses, trains, electric trams, rails, and power lines; for weather prediction; for pollution abatement and toxic waste clean-up.

When contractors take over the production or delivery of these goods or services, the relevant capability and expertise is transferred out of the public sector. Government loses its capability. This phenomenon is documented extensively in *Measuring the Performance of the Hollow State* (Frederickson and Frederickson 2006, pp. 2, 8, 152), who describe "what is now the dominant federal government approach to policy implementation—articulated vertical networks of third parties." They stress the enormity of the transformation to "third-party government" which has gone largely unnoticed even as it results in a thoroughgoing "redefinition of management and public administration. Much of what has traditionally been thought to be public administration, such as record keeping, hiring, promoting, supervising, contacting clients, budgeting, and the like, are now exported to third parties."

We do have a large corpus of studies on the results of contracting-out, which has swept through government at all levels. Despite the multitude of analyses (e.g., Sclar 2000; Mildred Warner 2011), insufficiently appreciated is the detrimental effect of contracting out not only on the provision of vital public services but on policy-making itself. When government employees cease doing the actual work of producing and delivering, they lose the knowledge, skills and expertise to develop sound policy and to oversee the substantive work of contractors. As James Galbraith (2008) shows, this effect is not unintended by the anti-government forces that promote privatization. The depletion of talent and expertise, and the resulting ineptitude, give further ammunition to those who advance privatization.

The Disregard of the Biophysical Aspects of Production

Just as mainstream economics ignores the existence of the public non-market economy, it disregards the biophysical basis of production (Hall et al. 2001), and the role of energy in particular. In *Energy and the Wealth of Nations*, Charles Hall and Kent Klitgaard (2012) show that economics for the most part has "treated energy not as a critical factor of production but only as another commodity to be bought and sold" (p. 8). They argue that treating natural resources and energy "simply as a commodity or as an externality" imperils future economic development, especially the prospects for sustainable development.

Market mimicry in the public domain exacerbates the depletion of natural resources and stymies a transition to renewable energy. If mainstream, market-based economics insists on disregarding the biophysical basis of production and development, certainly a new public economics cannot.

The Frustrated Quest for Efficiency

While constant allegations that government is inefficient have driven many government reforms on a quest for efficiency, no one agrees on how best to define "efficiency" in the public nonmarket. In Chap. 5, I list some of the attempts to arrive at a definition. Defining efficiency in the public nonmarket is a major unaddressed need.

Performance Measurement Practices Produce Unintended and Injurious Results

Government performance measurement systems repeatedly produce unintended consequences or fail to measure what is most important to citizens (Margetts et al. 2010; Radin 2006; Norman 2006). A notorious example is "No Child Left Behind." The distress over this ill-conceived measurement system and its successors continues, as teachers struggle to teach to the test while still hoping to provide students with the knowledge and skills that they will need in daily life. We've seen consequences of pay-for-performance at the Veterans Health Administration. And there is reason to be cautious about the "pay for performance" system of the Affordable Care Act, for we already have careful evidence from other countries that warns against medical pay-for-performance systems (Hartocollis 2013; Hood 2001; Dixon and Lodge 2012, p. 3).

Ill-devised or cynically-imposed performance measurement systems also produce gaming and subversion among staff penalized by the systems. One example is the VHA performance bonus scandal described in Chap. 2. But gaming of ill-designed systems is not uncommon, in either the private or public sectors. As Moynihan and Soss write (2014, pp. 328–29): "These sorts of bureaucratic responses are a staple of the literature on performance systems…[and may] represent forms of backlash and resistance or "may be 'rationally perverse' responses to the structures, pressures, and incentives created by the policy itself…They are administrative consequences of policy that merit theoretical and empirical attention as feedback effects."

Performance management can be a powerful driver for public programs and employees, for better or for worse. Among the growing army of private-for-profit consultants on performance management, *none seems to acknowledge that government operates in a non-market environment, and that government performance measurement needs to be rooted in an understanding of the dynamics of the public non-market.*

The Limitations of Markets

Neva Goodwin (2005) reminds us of "the limitations of markets":

> The free market model assumes that *markets exist for, and are used to allocate, everything that affects economic wellbeing*. That is, it is assumed that society relies completely on the market for all economically relevant resource allocation…[So] standard economic analysis only looks at that part of the world that operates through markets. This is one reason that its optimality predictions and prescriptions may not address the realities of the world we live in.

Certainly these "optimality predictions and prescriptions" do not address the realities of the public nonmarket, which significantly shapes the world in which we live. We need a less dogmatic and more sophisticated analysis of all that does not come within range of the market.