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From Bureaucracy

It's been over twenty years since the "new" ice skating rink was built in New York's Central Park. Many skaters have enjoyed it since 1986. In that time, New York City has experienced much change. New mayors have come and gone. September 11, 2001, happened: The city mourned and then slowly recovered. But some things in New York City have remained the same, even if not exactly. Donald Trump still knows how to get things done. Back in the mid-1980s, before "The Apprentice," real estate developer Trump showed that the efficiency of the private sector could accomplish what no public bureaucracy seemed to be able to do: refurbish the Central Park skating rink, quickly and inexpensively. Today we'd say that the city fired itself and "privatized" the project by hiring Trump. Renowned political scientist James Q. Wilson looks at Trump's success with the skating rink project, but also explains why he had that success. The public sector has many limitations on its actions that the private sector does not have to consider. As privatization becomes increasingly popular on the state and local and even national level of government, it's important to remember Wilson's caveats: efficiency is not the only worthy goal and not all publicly run projects are inefficient.

ON THE MORNING OF MAY 22, 1986, Donald Trump, the New York real estate developer, called one of his executives, Anthony Gliedman, into his office. They discussed the inability of the City of New York, despite six years of effort and the expenditure of nearly \$13 million, to rebuild the ice-skating rink in Central Park. On May 28 Trump offered to take over the rink reconstruction, promising to do the job in less than six months. A week later Mayor Edward Koch accepted the offer and shortly thereafter the city appropriated \$3 million on the understanding that Trump would have to pay for any cost overruns out of his own pocket. On October 28, the renovation was complete, over a month ahead of schedule and about \$750,000 under budget. Two weeks later, skaters were using it.

For many readers it is obvious that private enterprise is more efficient than are public bureaucracies, and so they would file this story away as simply another illustration of what everyone already knows. But for other

readers it is not so obvious what this story means; to them, business is greedy and unless watched like a hawk will fob off shoddy or overpriced goods on the American public, as when it sells the government \$435 hammers and \$3,000 coffee-pots. Trump may have done a good job in this instance, but perhaps there is something about skating rinks or New York City government that gave him a comparative advantage; in any event, no larger lessons should be drawn from it.

Some lessons can be drawn, however, if one looks closely at the incentives and constraints facing Trump and the Department of Parks and Recreation. It becomes apparent that there is not one "bureaucracy problem" but several, and the solution to each in some degree is incompatible with the solution to every other. First there is the problem of accountability—getting agencies to serve agreed-upon goals. Second there is the problem of equity—treating all citizens fairly, which usually means treating them alike on the basis of clear rules known in advance. Third there is the problem of responsiveness—reacting reasonably to the special needs and circumstances of particular people. Fourth there is the problem of efficiency—obtaining the greatest output for a given level of resources. Finally there is the problem of fiscal integrity—assuring that public funds are spent prudently for public purposes. Donald Trump and Mayor Koch were situated differently with respect to most of these matters.

Accountability

The Mayor wanted the old skating rink refurbished, but he also wanted to minimize the cost of the fuel needed to operate the rink (the first effort to rebuild it occurred right after the Arab oil embargo and the attendant increase in energy prices). Trying to achieve both goals led city hall to select a new refrigeration system that as it turned out would not work properly. Trump came on the scene when only one goal dominated: get the rink rebuilt. He felt free to select the most reliable refrigeration system without worrying too much about energy costs.

Equity

The Parks and Recreation Department was required by law to give every contractor an equal chance to do the job. This meant it had to put every part of the job out to bid and to accept the lowest without much regard to the reputation or prior performance of the lowest bidder. Moreover, state law forbade city agencies from hiring a general contractor and letting him select the subcontractors; in fact, the law forbade the city from

even discussing the project in advance with a general contractor who might later bid on it—that would have been collusion. Trump, by contrast, was free to locate the rink builder with the best reputation and give him the job.

Fiscal Integrity

To reduce the chance of corruption or sweetheart deals the law required Parks and Recreation to furnish complete, detailed plans to every contractor bidding on the job; any changes after that would require renegotiating the contract. No such law constrained Trump; he was free to give incomplete plans to his chosen contractor, hold him accountable for building a satisfactory rink, but allow him to work out the details as he went along.

Efficiency

When the Parks and Recreation Department spent over six years and \$13 million and still could not reopen the rink, there was public criticism but no city official lost money. When Trump accepted a contract to do it, any cost overruns or delays would have come out of his pocket and any savings could have gone into his pocket (in this case, Trump agreed not to take a profit on the job).

Gliedman summarized the differences neatly: "The problem with government is that government can't say, 'yes'. . . . there is nobody in government that can do that. There are fifteen or twenty people who have to agree. Government has to be slower. It has to safeguard the process." . . .

The government can't say "yes." In other words, the government is constrained. Where do the constraints come from? From us.

Herbert Kaufman has explained red tape as being of our own making: "Every restraint and requirement originates in somebody's demand for it." Applied to the Central Park skating rink Kaufman's insight reminds us that civil-service reformers demanded that no city official benefit personally from building a project; that contractors demanded that all be given an equal chance to bid on every job; and that fiscal watchdogs demanded that all contract specifications be as detailed as possible. For each demand a procedure was established; viewed from the outside, those procedures are called red tape. To enforce each procedure a manager was appointed; those managers are called bureaucrats. No organized group demanded that all skating rinks be rebuilt as quickly as possible, no procedure existed to enforce that demand, and no manager was appointed to enforce it. The

political process can more easily enforce compliance with constraints than the attainment of goals.

When we denounce bureaucracy for being inefficient we are saying something that is half true. Efficiency is a ratio of valued resources used to valued outputs produced. The smaller that ratio the more efficient the production. If the valued output is a rebuilt skating rink, then whatever process uses the fewest dollars or the least time to produce a satisfactory rink is the most efficient process. By this test Trump was more efficient than the Parks and Recreation Department.

But that is too narrow a view of the matter. The economic definition of efficiency (efficiency in the small, so to speak) assumes that there is only one valued output, the new rink. But government has many valued outputs, including a reputation for integrity, the confidence of the people, and the support of important interest groups. When we complain about skating rinks not being built on time we speak as if all we cared about were skating rinks. But when we complain that contracts were awarded without competitive bidding or in a way that allowed bureaucrats to line their pockets we acknowledge that we care about many things besides skating rinks; we care about the contextual goals—the constraints—that we want government to observe. A government that is slow to build rinks but is honest and accountable in its actions and properly responsive to worthy constituencies may be a very efficient government, *if* we measure efficiency in the large by taking into account *all* of the valued outputs.

Calling a government agency efficient when it is slow, cumbersome, and costly may seem perverse. But that is only because we lack any objective way for deciding how much money or time should be devoted to maintaining honest behavior, producing a fair allocation of benefits, and generating popular support as well as to achieving the main goal of the project. If we could measure these things, and if we agreed as to their value, then we would be in a position to judge the true efficiency of a government agency and decide when it is taking too much time or spending too much money achieving all that we expect of it. But we cannot measure these things nor do we agree about their relative importance, and so government always will appear to be inefficient compared to organizations that have fewer goals.

Put simply, the only way to decide whether an agency is truly inefficient is to decide which of the constraints affecting its action ought to be ignored or discounted. In fact that is what most debates about agency behavior are all about. In fighting crime are the police handcuffed? In educating children are teachers tied down by rules? In launching a space shuttle are we too concerned with safety? In building a dam do we worry

excessively about endangered species? In running the Postal Service is it important to have many post offices close to where people live? In the case of the skating rink, was the requirement of competitive bidding for each contract on the basis of detailed specifications a reasonable one? Probably not. But if it were abandoned, the gain (the swifter completion of the rink) would have to be balanced against the costs (complaints from contractors who might lose business and the chance of collusion and corruption in some future projects).

Even allowing for all of these constraints, government agencies may still be inefficient. Indeed, given the fact that bureaucrats cannot (for the most part) benefit monetarily from their agencies' achievements, it would be surprising if they were not inefficient. Efficiency, in the large or the small, doesn't pay. . . .

Inefficiency is not the only bureaucratic problem nor is it even the most important. A perfectly efficient agency could be a monstrous one, swiftly denying us our liberties, economically inflicting injustices, and competently expropriating our wealth. People complain about bureaucracy as often because it is unfair or unreasonable as because it is slow or cumbersome.

Arbitrary rule refers to officials acting without legal authority, or with that authority in a way that offends our sense of justice. Justice means, first, that we require the government to treat people equally on the basis of clear rules known in advance: If Becky and Bob both are driving sixty miles per hour in a thirty-mile-per-hour zone and the police give a ticket to Bob, we believe they also should give a ticket to Becky. Second, we believe that justice obliges the government to take into account the special needs and circumstances of individuals: If Becky is speeding because she is on her way to the hospital to give birth to a child and Bob is speeding for the fun of it, we may feel that the police should ticket Bob but not Becky. Justice in the first sense means fairness, in the second it means responsiveness. Obviously, fairness and responsiveness often are in conflict.

The checks and balances of the American constitutional system reflect our desire to reduce the arbitrariness of official rule. That desire is based squarely on the premise that inefficiency is a small price to pay for freedom and responsiveness. Congressional oversight, judicial review, interest-group participation, media investigations, and formalized procedures all are intended to check administrative discretion. It is not hyperbole to say that the constitutional order is animated by the desire to make the government "inefficient."

This creates two great tradeoffs. First, adding constraints reduces the efficiency with which the main goal of an agency can be attained but in-

creases the chances that the agency will act in a nonarbitrary manner. Efficient police departments would seek out criminals without reading them their rights, allowing them to call their attorneys, or releasing them in response to a writ of habeas corpus. An efficient building department would issue construction permits on demand without insisting that the applicant first show that the proposed building meets fire, safety, sanitation, geological, and earthquake standards.

The second great tradeoff is between nonarbitrary governance defined as treating people equally and such governance defined as treating each case on its merits. We want the government to be both fair and responsive, but the more rules we impose to insure fairness (that is, to treat all people alike) the harder we make it for the government to be responsive (that is, to take into account the special needs and circumstances of a particular case).

The way our government manages these tradeoffs reflects both our political culture as well as the rivalries of our governing institutions. Both tend toward the same end: We define claims as rights, impose general rules to insure equal treatment, lament (but do nothing about) the resulting inefficiencies, and respond to revelations about unresponsiveness by adopting new rules intended to guarantee that special circumstances will be handled with special care (rarely bothering to reconcile the rules that require responsiveness with those that require equality). And we do all this out of the best of motives: a desire to be both just and benevolent. Justice inclines us to treat people equally, benevolence to treat them differently; both inclinations are expressed in rules, though in fact only justice can be. It is this futile desire to have a rule for every circumstance that led Herbert Kaufman to explain "how compassion spawns red tape." . . .

In the meantime we live in a country that despite its baffling array of rules and regulations and the insatiable desire of some people to use government to rationalize society still makes it possible to get drinkable water instantly, put through a telephone call in seconds, deliver a letter in a day, and obtain a passport in a week. Our Social Security checks arrive on time. Some state prisons, and most of the federal ones, are reasonably decent and humane institutions. The great majority of Americans, cursing all the while, pay their taxes. One can stand on the deck of an aircraft carrier during night flight operations and watch two thousand nineteen-year-old boys faultlessly operate one of the most complex organizational systems ever created. There are not many places where all this happens. It is astonishing it can be made to happen at all.