

# Reinvention and the Principal-Agent Model

J. Ramón Gil-García

*Center for Technology in Government, University at Albany, USA*

**Resumen:** Existe una interesante polémica en el sector público, derivada de las tensiones existentes entre desempeño y flexibilidad administrativa por un lado, y rendición de cuentas y control, por el otro. El propósito de este artículo es discutir la utilidad del modelo agente principal para un mejor entendimiento de las tensiones entre desempeño y rendición de cuentas, así como analizar las similitudes y contradicciones de esta perspectiva teórica en comparación con el movimiento de “reinención del gobierno” de la década de los noventa en Estados Unidos.

**Palabras clave:** reinención, gobierno, agente, principal, desempeño.

**Abstract:** *It seems there is an interesting battle in the public sector, pitting performance and flexibility against accountability and control. The purpose of this paper is to discuss the usefulness of the principal agent model in understanding administrative performance and accountability problems and tensions, and to analyze the similarities and contradictions of this theoretical perspective as it relates to the American “reinventing government” movement of the 1990s.*

**Key words:** *Reinvention, principal, agency, performance, accountability.*

## Introduction

It seems there is an interesting battle in the public sector, pitting performance and flexibility against accountability and control. Many people think that government should be a performance-based organization; these commentators’ principal values would be efficiency and effectiveness. To accomplish this, public organizations need flexibility, leadership, and innovation, among other capabilities.

Another group emphasizes that government has to be controlled by citizens, and that public officials should be accountable for their actions and the consequences of those actions; these commentators think that the main characteristics of government should be accountability, legitimacy, and legality. There is an obvious tension between these two different positions. It would be difficult to have all the different values and characteristics in one political system at the same time.

The principal-agent model is a theoretical tool that tries to deal with both problems. However it has some specific downsides when its prescriptions are implemented in public sector. The purpose of this paper is to discuss the usefulness of this model in understanding administrative performance and accountability problems, and to analyze the similarities and contradictions of this perspective as it relates to the “reinventing government” movement of the 1990s.

The paper is divided into five sections. Section one presents the main tenets of the principal-agent model as they apply to public administration. In the second section, the tensions between administrative performance and accountability are presented and discussed. A critical evaluation of the strengths and weaknesses of the principal agent perspective is presented in the third section. Section four describes and compares some implications of the principal-agent perspective for the ideas leading the “reinventing government” movement of the 1990s. Finally, we present some reflections and conclusions regarding the persuasiveness and feasibility of the principal agent and reinvention approaches in dealing with performance and accountability problems in the public sector.

### **Principal-agent model in government**

From a principal-agent point of view, we are facing a clear agency problem in government. On one hand, we have the president trying to keep the agencies accountable and develop or maintain good levels of agency performance. On the other hand, we have agencies that do not have the necessary incentives to act in that way. Agencies have considerably more information in their areas of expertise than does the president, and the president therefore cannot really know if the agencies are doing well.

As we know the principal-agent model is an analytical expression of the agency relationship, in which one party, the principal, considers entering into a contractual agreement with another party, the agent, with the expectation that the agent will subsequently choose actions that produce outcomes desired by the principal (Moe 1984, 756). This kind of analysis is part of a broader theoretical framework called New Economics of Organization.

In the case of the public bureaucracy, and this could be applied to the public administration of the United States, the economics of

organization can help us to answer three questions: 1) Why do public bureaus exist, as opposed to alternative arrangements for the provision of public services? 2) How can bureaucratic superiors control bureaucratic subordinates? 3) How can politicians, as principals, control their bureaucratic agents? (Moe, 1984).

We can see our democratic accountability as a whole chain of principal-agent relationships, from citizens to politicians to bureaucratic superiors to bureaucratic subordinates and on down the hierarchy of government to the lowest level bureaucrats who actually deliver services directly to citizens (Moe, 1984: 765).

The more general principal-agent models of hierarchical control have shown that, under a range of conditions, the principal's optimal incentive structure for the agent is one in which the latter receives some share of the residual in payment for his efforts, thus giving him a direct stake in the outcome (Moe, 1984). There is no residual in government in the ordinary sense. Maybe the better concept to take the place of residual is slack, the difference between the true minimum cost of the service provision and what the bureau actually spends (the budget).

However, there are many conditions in government that are obstacles to a good application of the principal-agent model. If we want to have a government that performs well but at the same time have control of its actions, we need to think about these conditions. The first crucial difference is that slack is only available to the extent that the bureau as a whole operates inefficiently by producing at greater than minimum cost, with budget exceeding the true costs of production.

The second consideration is that it is only reasonable to suggest that pecuniary gain is far more salient a motivator for top-level managers in the private sector than for top-level bureaucrats in the public sector. Political theories have recognized that the salience of specific motivators varies across bureaucratic officials and with the nature of the appointment. In addition, public managers must operate within an organizational context the structure and objectives of which are in important respects imposed by outside actors (Moe, 1984: 764).

All these rules place several constraints on the ability of public managers to do what the contractual paradigm implies they ought to be doing in the interest of hierarchical control: screening and selecting appropriate personnel, weeding out the inappropriate, and designing incentive structures that conduce to maximal compliance. On the other

hand, for example, the Freedom of Information Act requires that many agency files be open to the public upon demand, implicitly encouraging bureaucrats to constrain their internal communications and storage of information (Moe, 1984).

### **Administrative performance and accountability**

As was established early in this paper, performance is not the only thing that citizens expect from government. They also expect to have some sense of democratic control. For some scholars, accountability is one of the most important features of any democratic government (Behn, 2001). This is not a new argument, “mill recognizes that perhaps the gravest problems of bureaucracy within representative government are control, accountability and responsibility” (Warner, 2001: 409).

Accountability could be seen in many different ways, but implicit within it is the idea of democratic control. If we review the history of different governments we can understand why people considered accountability as at least one of the main values (Rosenbloom, 2001). Unfortunately, public servants are not always public spirited and do not always work for the public interest or the general welfare (Moe, 1994).

In most of the cases, for accountability holders, accountability means punishment (Behn, 2001). Their principal job is to detect problems in the behavior of public officials or public managers and try to be the first person who discovers that someone did something wrong. Accountability is a part of the democratic idea. “Public Administration schools have always recognized that in American governance and liberal democratic thought, accountability remains institutionally based and mediated through law, oversight, and election” (Dobel, 2001: 167).

It would be difficult to say that there is only one kind of accountability. Accountability is a concept with different interpretations and dimensions. Behn (2001) says that we have at least three types of accountability: accountability for finance, for fairness, and for performance. The first one is maybe the most obvious and easy to identify. It focuses on financial accounting, in other words, “on how the books are kept and how the money is spent” (Behn, 2001: 7).

Accountability for fairness is more related to our perception of equity in our relations with government. We want government to be

exceptionally fair to its employees, contractors, clients, and citizens. Some rules embody and define what we, as a society, mean by equity and fairness. Behn (2001) says that these two first kinds of accountability have a very similar process for being created: 1) decide what values we want government to uphold; 2) create rules, procedures and standards to establish what the organization should and should not do; 3) require the organization and its managers to keep a lot of records of what it did; and 4) audit these records to ensure that the organization and its managers did follow the rules, standards and procedures. And, if we discover that they did not do so, we hold them accountable by punishing them.

This process, however, is not as clear in the case of accountability for performance. “Government is not only supposed to use money prudently and to treat every one fairly; it is also supposed to accomplish public purposes” (Behn, 2001: 9). Accountability for performance needs certain targets and goals, but the ways of establishing the relationship with citizens are not rules, procedures and standards. Actually, this set of institutions can be an obstacle for performing well. Indeed, in the words of Behn (2001), the accountability rules for finance and fairness can hinder or actively thwart performance. The accountability dilemma for Behn (2001) is the trade-off between accountability for finance and fairness and accountability for performance.

Therefore, accountability and performance are not necessary compatible. In the ordinal terms, and many times in practical terms as well, these two kinds of accountability are looking for different goals, using different tools, and need different values to be accomplished. Constructs such as reinventing government (Osborne and Gabler, 1992) or the post-bureaucratic model (Barzelay and Armajani, 1992) argue that government should go in both directions. Besides, nowadays it is more common to hear about big national governmental reforms (Light, 1997) and not about specific and focused changes. So we are facing big reforms with contradictory values and objectives.

All reforms need not only to demonstrate that they can do the things better in government, but they also need to show how the new capacity can affect the public purposes and democratic accountability establish in our legal and constitutional framework (Behn, 2001; Lynn, 2001). This is not only a normative prescription; this is also what we have

learned from practical experiences of government reform that did not take into account the role of Congress and citizens (Kettl and DiIulio, 1995; Light, 1997). As Rosenbloom (2001) says, reformers need to see the history and find how most of the red tape and micromanagement that they want to disappear were put in place in the 1940s and later, largely to protect values such as equal opportunity, justice, diversity and democracy.

### **Principal-agent approach for studying performance and accountability**

The principal-agent model is not always a good approach to understand the public sector. DiIulio (1994) establishes that we have agencies that are really doing what their officials expect from them. We have cases of principled agents and, according to DiIulio, they are the rule and not the exception in the American public administration.

The principal-agent model establishes that most bureaucrats are not public-spirited souls but rather are self-seeking slugs who are disposed to shirk, subvert, and steal when ever and wherever they can get away with it (DiIulio, 1994: 278). In addition, according to principal-agent model, government bureaucrats, even those who are well meaning and public spirited, are inevitably drawn to work less hard than they are capable of working, to do no real work at all, or even to drag down the productivity of those around them (DiIulio, 1994).

Rational choice theories and principal-agent models help to explain why bureaucrats shirk, subvert, and steal on the job, but they have little to say in the presence of bureaucrats who strive (work hard and go “by the book”), support (put public and organizational goals ahead of private goals), and sacrifice (go “above and beyond the call of duty”) on the job (DiIulio, 1994: 281). Now, we know that at least some government bureaucracies have transcended principal-agent problems mainly by creating and sustaining cultures of principled agents (DiIulio, 1994).

These strong-culture organizations do not just happen in a vacuum. There is an important role for the organizational leaders who either set or do not set in motion the organizational socialization processes that transcend principal-agent problems by nurturing a culture of principled agents (DiIulio, 1994). Many people have discussed leadership in the public sector and its role in building a strong culture of service and

public spirit. What is relatively new, however, is the recognition that the importance of leadership in government has less to do with cultivating outside constituency groups, fine-tuning pay-scales, or refereeing intra or inter-bureaucratic battles, and more to do with establishing social and moral reward systems that make it possible for government agencies to tap the creativity, sense of duty, and public-spiritedness of their workers (DiIulio, 1994).

Even in the bowels of the government agencies, there is more self-sacrifice, and less self-interest, than rational choice theory allows for and can explain. If we really want a government that can perform well, we need to select more good leaders as heads of the agencies with the capacity of generating a strong culture of principled agents. As we can see there are some phenomena that are difficult to be explained by the principal-agent perspective. Therefore, it is necessary to identify some strengths and weaknesses of the principal-agent model in understanding issues related to performance and accountability in governmental agencies.

### **Strengths and weaknesses**

The problems of political control could be analogous, in many respects, to the economic problem of the separation of ownership and control, with politicians attempting to control bureaucrats rather than stockholders trying to control managers (Moe, 1984). Therefore, the principal-agent model can help to understand the main relationships between public officials and public servants that can be identified as performance related. On the other hand, this agency perspective could be useful to analyze some of the relationships between politicians and citizens that are more related to accountability.

However, there are some important differences in the public sector that can be seen as weaknesses in the principal-agent model: 1) the empirical diversity and ambiguity of individual goals, since there are no simple quantities like income or profit; 2) politicians cannot count on the economic residual, as can the stockholders of a corporation would in motivating their managers; 3) politicians do not have some external mechanisms to substitute their direct knowledge like stock market evaluation of company's profitability, labor market evaluation of a manager's economic value, the threat of take overs; 4) politicians operate under heavy constraints in their effort to exercise control over bureaucrats; 5) any given bureau is likely to have multiple principals;

and 6) political control is also undermined by multiple-agent arrangements (Moe, 1984). Dealing with these differences in the implementation of a system of incentives for bureaucrats is the big challenge of those who are in favor of the application of the principal-agent perspective in the public sector.

### **The reinvention movement in the United States**

The National Performance Review (NPR) may be the best-known program of the American reinvention movement. However, we are not talking about a single project, but a series of different efforts that took place over an approximately 7 year period, starting with the founding of the NPR in 1993 and ending with the 2000 Presidential election. Some of the important documents from this period are: *From Red Tape To Results: Creating a Government that Works Better and Costs Less* (1993), *Creating a Government that Works Better and Costs Less: Status Report* (1994), *Common Sense Government: Works Better and Costs Less* (1995), and *The Best Kept Secrets in Government* (1996). These documents were very important in defining the different components, or phases, of the reinvention.

**Phase I:** Some scholars think there were at least two different phases in the reformation effort. Kettl (2000) identifies three phases, referring to them as “three different reinventions”. During phase one, hundreds of reinventors were sent to the different agencies to identify opportunities for decreasing waste and improving management. In March of 1993 the National Performance Review (NPR) was launched and 384 recommendations were presented. The promise was to save \$108 billion and to reduce the Federal workforce by 12 per cent within five years (Kettl, 2000).

The National Performance Review’s four broad policy goals were derived from Osborne and Gabler’s *Reinventing Government* (Light, 1997): 1) “Cutting Red Tape”, including streamlining the budget process, decentralizing personnel policy, reorienting the inspectors general, and empowering state and local governments; 2) “Putting Customers First”, including making service organizations compete and using market mechanisms to solve problems; 3) “Empowering Employees to Get Results”, including decentralizing decision-making power, forming a labor-management partnership, and exerting leadership; and 4) “Cutting Back to Basics”, including eliminating



programs, investing in greater productivity, and reengineering programs to cut costs.

The most important initiatives of this phase were the downsizing of government, and the enactment of reforms in government procurement and customer service (Kettl, 2000). The most effective way to reduce the size of government is to reduce the workforce; the National Performance Review proposed to eliminate 252 000 federal jobs. The Federal Acquisition Streamlining Act simplified procurement regulations and gave managers more flexibility in buying goods. Procurement reform in the United States went deeper than similar reforms enacted in such countries as the United Kingdom, Australia, and New Zealand (Barzelay, 2001). Finally, despite the polemic about seeing citizens as customers, the customer-centered strategy allowed many government agencies to rethink their services. The customer service initiative encouraged many public servants to focus on broader policy goals in stead of each agency's interest (Kettl, 2000).

**Phase II:** Phase one presented a practical dilemma. It needed the support of public servants to develop empowering public agencies, but at the same time it needed to cut costs by removing many public servants from their jobs. In spite of this tension, “[b]y the end of 1994 the customer service initiatives were under way, Congress had passed procurement reform, and the administration had significantly downsized the federal work force” (Kettl, 2000: 17). The basic idea behind phase two was to review what government should do.

The Republican Congress that won the elections of 1994 pushed the Clinton administration to question the existence of certain programs and agencies. The point was not only to improve what government was doing, but also to decide whether the government should perform certain functions at all. “No program was to be taken for granted. [Gore] even asked managers to consider the implications if their agency were eliminated” (Kettl, 2000: 17). However, the number of agencies remained more or less the same and the massive eradication of programs never took place.

Undoubtedly, the key stones of this phase were downsizing and cost savings. However, assessing cost savings is very difficult, and the National Performance Review reported a savings of \$12.3 billion in the first four years. “Despite the grand rhetorical skirmishes, the battle [between Clinton's administration and the Republican Congress]

ended it a draw with little sorting out of government functions, reorganizing of its operations, or minimizing of its role” (Kettl, 2000: 18).

**Phase III.** One last shift in the focus and emphasis of the reinvention movement occurred in 1998. Taking into account the looming presidential election of 2000, Gore launched a new phase of the reinvention. The National Performance Review was re-christened the National Partnership for Reinventing Government. The goals of this new phase were much broader and more difficult to measure than those of the other two phases, including such generalized objectives as a “safe and healthy America”, a “strong economy”, or the “best-managed government ever”.

The intention to use information technology as a means to improve government was evident in the new slogan, “America @ its Best”. The idea was to develop an information-age government that was managed like one of the best American companies. The administration also attempted to narrow the scope of the reinvention programs. “The administration focused most of its reinvention efforts on thirty two ‘high-impact agencies’ that dealt most directly with citizens, where the failure to reform quickly could further undermine the effort (as in the case of the Internal Revenue Service [IRS])” (Kettl, 2000: 18).

There was a tension between the broader political goals of this new reinvention and the more localized improvements that managers were trying to implement. “In seeking political relevance, the reinventor necessarily distanced Phase III of the NPR from its ability to achieve and produce measurable results” (Kettl, 2000: 20). The efforts of the different agencies in improving their operations did not have a direct relation with the political goals that Gore and his team were promising from this “new” reinvention movement.

### **Some Reinvention Results**

It is difficult to evaluate the results of such a big and complex program. First, as was established earlier, there was not a single reinvention program, but a collection of very different projects and actions. Second, some of the results can not be directly attributed to the reinvention movement. Some agencies considered benchmark cases for the reinvention were actually working on improvements even before the reinvention movement started (Radin, 1995). Therefore, this

section only presents some general results linked with the NPR in its three phases.

In general terms, the procurement reform and the customer service initiative seem to be the only clear results of the reinvention movement. “NPR officials claimed that more than 4 000 customer service standards had been implemented in more than 570 government agencies and programs” (Kettl, 2000: 20). However, the relative priority of the several reinvention programs was very different from agency to agency. In a survey conducted in 1996, only 37% of federal employees thought that reinvention was top priority in their organization. It appears that the reinvention team forgot to take into account many of the political appointees who were supposed to be in charge of the reinvention effort. The lack of leadership in many agencies led to poor results.

Further, it is not clear that the NPR in fact helped to cut costs and save money. The reduction of the number of public employees is an example. Over 300 000 positions were eliminated from 1993 to 1998. “The NPR did indeed reduce the number of federal government employees to a level lower than any time since the Kennedy administration” (Kettl, 2000: 21). However, this reduction was not equally important for all agencies. While the General Services Administration was reduced in 30.8% and the Office of Personnel Management was downsized by 47.4%, the Department of Justice grew 21%.

As we can see, it is not clear whether the NPR just strengthened pre-existing tendencies or actually changed the way government worked. What seems to be clear is that the reinvention movement was more successful in some areas and agencies than in others. This paper does not focus on any of the different stages or phases of the National Performance Review. The objective of this paper is to perform a general evaluation of the NPR’s goals and actual results in terms of performance and accountability. No specific case is going to be analyzed in detail. The main idea is to consider the reinvention movement in a conceptual or theoretical way, in order to compare it with agency theory.

The basic idea behind the reformation initiative was that “government officials must manage for results, not just rules and regulations. This accountability both empowers and rewards those

who improve performance” (Light, 1997: 39). Therefore, the following sections focus on the usefulness of the principal-agent model to understanding the tensions between performance and accountability, and to compare this theoretical model with the basic assumptions of the reinvention movement in the United States.

### **The principal-agent model and the reinvention machine**

As was explained earlier, performance and accountability are some of the government characteristics that many people desire for their own country. These two factors appear not to be complementary but contrary. Some times we believe that there is a trade off between them and when a political and administrative system wins some accountability it has to decrease its level of performance.

The New Public Management (NPM) has emphasized both of them as desirable components of any governmental reform. Many countries have attempted to get the benefits from both of them (Kettl and DiIulio, 1995; Light, 1997), and many of these national reforms have been, at least in some sense, a failure. There are also some tensions at the theoretical level. Lynn (2001), for example, says that in many senses NPM and the idea of reinventing government could be more similar to what we call traditional public administration (politics and administration dichotomy, principles of administration, lack of accountability, etc.).

On the other hand, in their book entitled “Inside the Reinvention Machine” Donald Kettl and John DiIulio provide what they call “the first independent assessment of the Clinton administrations ‘reinventing government’ plan after more than a year of effort”. The book presents different analyses and opinions from scholars that in some ways evaluate the actual results of the National Performance Review.

John DiIulio presents the different notions of reinventing and reforming government. He says “as the first year of the NPR drew to a close, there were basically two schools of thought about it, one on balance positive, the other on balance negative”. The perception of DiIulio is that the negative school had found more adherents than the positive one. They are trying to have an objective evaluation of the first year of the NPR. They try to show the negative but also the positive of this government reform.

Kettl establishes that the National Performance Review has at least some positive results. In the words of Kettl “in its first year, the NPR has proven one of the most lively management reforms in American history. It has helped reorient the federal bureaucracy toward a far more effective attack on problems that it must learn to solve”. They did not have the results they expected, because they wanted to do everything at the same time. They have practical and theoretical contradictions in the whole discourse of reinventing.

Kettl identifies some contradictions that can be explained by the big differences between the principal administrative tools of the movement: downsizing, reengineering and continuous improvement. These management instruments have very different goals, directions, methods, central focuses, and actions. These differences wanted to take the NPR to different directions at the same time. Kettl does not mention performance as the goal of any of these main tools. It seems that Kettl, like other authors (for example, Light, 1997), considers performance and results were important in the NPR, but it appears that he thinks they were not the principal source of contradictions.

Other important insight of Kettl is the description of the missing pieces. He says that “without attacking and solving these missing pieces of the picture, the NPR risks undercutting its promise”. The missing pieces are: 1) a reform in the civil service; 2) a bigger investment for the long term; 3) actions for reinforcing central administrative capacity; 4) a reevaluation of the importance of the Congress; 5) a reevaluation of the media’s role; 6) a differentiation of the high-risk programs; and 7) a systematic effort to learn what the reinvention movement have to teach.

In the words of Kettl, successful reinvention needs: 1) coupling the driving ideas of the movement to the federal government mission; 2) linking the big politics of downsizing with the small politics of performance improvement; 3) developing a language for talking about it; 4) reinventing the job of federal managers, especially in government’s middle, and 5) creating the glue to bind the movement together.

Kettl and DiIulio tell us that, in general, “the National Performance Review accomplished, in just its first year, far more than anyone thought possible” (Kettl and DiIulio, 1995). But this movement paid

much more attention to the results in the short term and “failed to build the foundation for success in the long run”.

Despite of the differences in scope, there are some important characteristics that many scholars and practitioners have identified as part of this reforming movement. Most of them agree that maybe the most important characteristic is the emphasis in improving the performance of the public sector (Behn, 2001; Light, 1997; Kettl and DiIulio, 1995). Many of the principal ideas of “reinventing government” are based in managerial and economic theories (see Osborne and Gabler, 1992).

We do not have a clear map of bureaucratic discretion and accountability. We have different positions, and one of them holds that we can change their behaviors and make them to do what politicians and citizens really want. Principal-agent model and in some sense the reinvention movement assumes that with the correct incentives (positive and negative), we can change the behavior of the bureaucracy, political appointees and members of Congress.

It would be difficult to say that we do not want a government that “performs better and costs less” as the National Performance Review argued. Performance is a very important characteristic of a successful modern government. We do not want only a government that represents our interests in a democratic way, but we ask for a government that can also give us the best possible level and quality of services. Performance has become one of the main measures of success in public sector.

For the reinvention movement the performance-measurement system is a clear link between performance and accountability. They claim that if we establish clear goals for the bureaucrats, we do not need to worry about the procedures and the means that they use to achieve the general objectives. A similar link is developed in the principal-agent model, but the big difference is that the reinventing government movement thinks about the public servants as public spirited and well-prepared people, while the principal agent model assumes that we are dealing with selfish and self-interested agents.

### **Final reflections**

As we can see, the reinventing government movement and the principal-agent model are two different instruments each attempting to

face the unsolved problems between performance and accountability. It is interesting to see how both perspectives try to place the problem in the measurement of outcomes and the construction of incentives for agencies and people. But it is important to clarify that in public policy the problems and outcomes are constructed by people in complex processes of interactions and negotiation (Wildavsky, 1993).

So we have still the problem about who is going to define the problems and who is going to establish the goals, objectives and performance measures. We can think also that this whole effort is worthless because the ultimate purpose of governance is not -or should not be- efficiency, but more important values (Dobel, 2001).

Government is dynamic because the nature of society is dynamic too. Now, Public Administration is facing new challenges. It is not only the problem of how to keep our public officials and public managers accountable, but we have also the problem of having new agency relationships with different non-profits and private agencies for providing a great variety of services. The contracting relationship by itself is a principal-agent challenge (Kettl, 1993; Lipsky and Smith, 1989), and the idea of performance and accountability in those kinds of new partnerships is a topic that needs to be very well discussed (Moe, 2001).

As we can see, in the extreme, neither the reinventing government movement nor the principal-agent model can accomplish their goals regarding both performance and accountability. On the side of performance measurements as bureaucrats' incentives, we have that in many cases those measures are and have to be the result of political negotiations between the different agencies and members of Congress. The promise of an objective and technical definition of these performance incentives is almost impossible to achieve, at least in settings like democratic systems (Derthick, 1990).

On the other side, accountability could become a bigger problem. With the traditional system the inputs and some outputs are relatively clear. The reinvention movement proposes to pay more attention in the outcomes and give more legal discretion to bureaucrats and public officials. It is more difficult to have good measurements of outcomes. Thus, we are going to be in the position of not having good measurements of outcomes and also not having control of inputs and outputs.

In this sense, the National Performance Review can be seen as a partial success. It achieved much more than anyone imagined at the time the program started (Kettl and DiIulio, 1995). The results of the NPR can be analyzed at least in two different ways. First, it seems clear that, while most of the agencies could not accomplish the goals established in their NPR recommendations, some organizations were able to overcome various forces and carry out both policy and management change (Green, 2000; Radin, 1995).

On the other hand, it appears that different functions of government had different levels of improvement. Barzelay (2001) compares the results obtained in the United Kingdom, New Zealand, and Australia, which are considered the benchmark cases, with the results of the NPR in its different phases. He argues that in the United States there was a relative lack of change in the areas of financial management and organization, a similar level of change in the area of audit and evaluation, and an apparently more substantial change in the area of procurement (Barzelay, 2001).

Finally, it seems clear that both approaches are useful to understand the multiple relations in the public sector. The principal-agent model can help us to analyze the different interactions between several political actors and the role that the incentive systems play in a democratic government. The reinvention movement showed us how a contradictory reform was implemented in one of the most complex political systems. We learned that many bureaucrats do not behave in the way predicted by the principal-agent perspective. In my opinion, the lessons learned from both perspectives are different but equally useful for having a better understanding of the performance-accountability problem in modern governments.

Future research should attempt to address a fundamental question regarding the utility of these approaches to understanding and dealing with the increasing complexity and uncertainty that underpins modern governance. One potential means to accomplishing this theoretical objective might be to pay attention to the different attempts to interrelate performance and accountability in practical systems. That is, we need to deeply study the experiences of different countries that have tried to overcome these tensions in more practical ways, such as enacting a performance-oriented budget or nation-wide managerial reforms.



It is necessary to be aware that agency theory analyzes social problems from an individual point of view. Therefore, its potential power should be found in disaggregating complex problems from individual behaviors. If we can understand how different individual behaviors influence overall social problems, we are not solving the problems, but we have a better understanding of them, and thus have a better chance to potentially deal with the increasing complexity of the public sector.

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*jgil-garcia@ctg.albany.edu*

J. Ramón Gil-García. Profesor investigador asociado (Profip) de la División de Administración Pública en el Centro de Investigación y Docencia Económicas y profesor de la Facultad de Ciencias Políticas y Administración Pública en la Universidad Autónoma del Estado de México. Actualmente, estudiante del doctorado en Administración Pública en el *Rockefeller College of Public Affairs and Policy* de la *University at Albany, State University of New York* y colaborador en dos proyectos de investigación del *Center for Technology in Government*. Líneas de investigación: Gobierno Electrónico, Teoría de la Organización, Formulación e Implementación de Políticas Públicas, Política Educativa, y Gerencia Pública.

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