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Strategic Planning of Institutional Reform: Improving Policy Outcomes through more Accountable Structures

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I. Introduction

The shrinkage of the state was the first step in the crucial reform process occurring in Latin America and much of the developing world. These reforms to pursue efficiency and equity through the reduction of the size and direct involvement of the state have already generated positive economic results in many countries. Many Latin American economies have become more efficient as a consequence, and indeed more equitable in some respects. In my view, more needs to be done in this direction. Yes, we already need to look beyond the shrinkage of the state to focus on the next set of problems in need of reform. I will argue that going beyond the issue of the size of the state brings us to questions of the structure of formal governmental policymaking, especially regarding the structures of public finance and the division of labor within government. The typical Latin American government is still a jumble of agencies created in an often ad hoc manner and marked by confused and overlapping mandates and jurisdictions. These are not new issues, but until now they have been poorly analyzed and addressed quite ineffectively. These issues are central to the new agenda of international organizations, such as the World Bank and the Inter-American Development Bank, that are now focusing on "governance" and are increasingly insisting, through their funding decisions and loan conditions, that governments become more effective and accountable. Moreover, the democratization of Latin America poses both an opening for making the structural reforms to enhance accountability, and the risk that competitive electoral politics will tempt government leaders into even greater efforts to evade accountability through overly complex, confusing and therefore non-transparent structures and mandates. I will try to outline several principles for approaching the reform of policymaking structures that will avoid the

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usual problem of aimless structural change for the sake of appearing to make changes. The three principles are:

- Bringing agency interests and the interests of the nation into congruence, so that the costs of negative consequences of agency actions are internalized by agency leaders and personnel.
- Establishing clear-cut, narrower, exclusive, highly differentiated mandates for government agencies, in order to make this congruence feasible and to enhance accountability.
- Increasing the discretion that government agencies enjoy in pursuing these mandates, both to enhance accountability and to create the incentives to induce responsible policymaking and implementation.

Our background premise is that policy reform in the long-run requires reform of formal policymaking structures. We view the policy process as the generator of policy outcomes. This may seem obvious, but it needs to be reinforced so that reformers do not presume that the only basic problem is that ill-intentioned or ill-informed actors pursue bad policies. We also need to remember that government agencies play an enormous role in establishing the specific content of government policies. The notion that officials within executive-branch agencies only implement the wishes of legislators and top executive leaders ignores the power of the implementers to interpret, refine and even subvert policy directives from above. The great discovery of the behavioral study of policymaking within the field of public policy is that we have to go beyond the insight of public administration theory that a mal-structured governmental structure will lead to inefficiency: we discover that only if government agencies are structured properly will they pursue the appropriate objectives.

I also want to introduce the argument that what we have learned over the past two decades of economic reform is that John Stuart Mill was right. Mill, after being castigated for so many years for being a "classical liberal" opposing the use of the productive process to pursue income equity and poverty alleviation, has been vindicated by two revelations about state intervention as practiced in most of Latin America in the post-World War II era. First, most state economic interventions and regulations in Latin America have had regressive income distributive effects. This should come as a surprise only to those naive enough to discount the fact that credit regulations, special tax treatments rationalized as stimulants to particular types of investments, tariff protections and other policy provisions that have been targeted by liberalization reforms were enacted for the sake of, the wealthy and powerful. Second, the invocation of progressive distributional objectives (along with an assortment of other non-economic objectives) had been an extraordinarily effective way of reducing the accountability of top government officials for the regressive and inefficient actions they had undertaken. This approach reduces the pressure on government to address poverty alleviation the right way: through government investments into human capital formation, focusing on the health and education of the poor and the infrastructure necessary to make them more productive. Most of Latin America is woefully behind East Asia and Southeast Asia because of this failure.

Moreover, John Stuart Mill's approach to addressing distributional and non-economic objectives is remarkably modern in terms of its implications for transparency and accountability. The central budget is the legitimate locus of government efforts to alleviate poverty, defend the nation against outside enemies, enhance culture, etc. Only at the level of the central budget, the apex of the allocation of national resources for national interests, can the relative merits of devoting the nation's wealth be weighed holistically; only through the central budget can the "rates of return" for society be considered in a transparent and accountable way. By the same token, the central budget defines the resources that the top government officials place into the hands of each agency to pursue its mandate. The implication is that vague or mixed mandates make for vague and non-accountable pursuit of national objectives. It is fascinating that in developing an approach that could pursue both efficiency and whatever degree of equity emerged from the most visible political process, Mill also ensured the maximum transparency and accountability.

II. POLICY FAILURES AND THE LACK OF MANDATE CLARITY AND ACCOUNTABILITY

A few examples will clarify why this is important. Consider education policy. Latin American education systems are typically characterized by low quality, low teachers' salaries, regional inequities, obsolete curricula, and inequitable subsidies for the relatively wealthy students who make it into post-secondary educational institutions. At the same time, tax exemptions for family spending on education are both regressive in terms of their after-tax income distribution impacts, and deny the government the revenues that could be directed to spending for elementary, secondary and vocational schooling for lower-income children. Why do governments persist in these policies, which in an electoral democracy could be politically embarrassing to the top government leaders? First, government policies may be highly flawed in terms of their balance or the targets of their largesse -- for example in the overemphasis on tertiary education - without even relatively well-informed citizens being in a position to know. It is easy to unfurl a positive banner for a bad cause. After all, who is opposed in principle to first-rate higher education? It is only in the holistic examination of opportunity costs that the over-emphasis on higher education is revealed as a poor policy. Second, even if accused of devoting too much money to subsidizing higher education, the ministry officials can counter that it has to take care of higher education, and whether it is devoting the right amounts is a matter of professional judgment requiring information and experience that is largely available to the ministry alone. Third, the "education mandate" is so spread across different governmental institutions that none is accountable for the outcomes. The legislature and the taxing authorities may be responsible for exemptions for family spending on education, as well as the tax status of various types of educational institutions; the ministry is responsible for government spending and certification of programs and teachers; local authorities may be responsible for teacher placement; and so on.

In most Latin American countries, it seems obvious beyond any discussion that there should be a ministry of education with jurisdiction over education at all levels. Yet in Thailand there is a Ministry of Education for elementary, secondary, and teachers education; a separate Ministry of University Affairs for the rest of post-secondary education. Naturally, the two ministries clash over the boundaries of their jurisdictions, and even more so over budget. But that is precisely what we should wish to happen. There ought to be a cabinet-level and legislative debate on the balance between tertiary education and lower-level education; the press needs to be able to report on the debate and its consequences.

A second example is the imposition of penalties, sometimes going as far as expropriation of property, for violations of so-called "environmental rights." Since the 1960s, and in some cases even earlier, Latin American governments have been imposing restrictions on timber harvesting on private or communal lands, or making these forest lands into so-called "protected areas." Pragmatically, this has proven to be a foolish policy, because forest-users who lack the confidence that they can count on future opportunities to harvest trees will not devote effort to planting or nurturing them, and will often chop down trees despite the government's prohibitions. In terms of income equity, it is typically regressive because the traditional forest users are indigenous peoples or impoverished migrants; this has often been exacerbated by the governments' subsequent decisions to allow higher-income commercial logging firms to harvest on the lands transferred to state control. The real problem in this case is that the invocation of "environmental rights" is often a pretext for the government to strip away the pre-existing user rights, without having to pay the users for the positive externalities that forest preservation had provided. Instead of waving the environmentalist flag and then exacting the costs from the forest users, the governments should determine whether the environmental ministry ought to have enough funds to either pay those with traditional user rights to desist from forest harvesting, or buy the user rights from them. Then the government ought to allow the environmental ministry to determine whether this particular use of its funds is the best use, given the other ways that the environment can be protected or enhanced.

A third pattern has been to provide tax exemptions or other benefits to businesses that undertake reforestation. In some countries, most notably Costa Rica, these programs have had very poor results, as the tax benefits are obtained so early in the reforestation cycle that the businesses are left with little incentive to nurture the trees long enough for them to survive, and in some instances natural forest has been torn out to make way for non-native species with little chance for survival (Gonzalez and Munoz 1987; Lutz and Daly 1990; Ascher 1993b). Here again the environmentalist appeal is used, perhaps quite cynically, to rationalize a program with often highly negative environmental impacts. The common use of tax credits rather than direct payments in such reforestation programs is no accident; tax credits are less identifiable as government spending, although they amount to the same thing.

A fourth example is provided by Honduras, which in the mid-1970s established a hybrid forestry agency and state forestry enterprise called COHDEFOR. COHDEFOR's mandate to harvest Honduras' pine forests on a sustainable basis was reinforced by the agency's fiscal arrangement – since the entire budget aside from foreign grants was from its own proceeds from harvesting, COHDEFOR officials realized that without pine forests, there would be no COHDEFOR and no pensions. Indeed, COHDEFOR soon began to restrict pine forest harvests to a sustainable level. Yet the agency's record of conservation of Honduras' broadleaf forests, and its social forestry efforts directed to the lowest-income people in and around the forests, were very poor. It seems clear that COHDEFOR the government forest conservation agency could not be expected to perform well in regulating COHDEFOR the forestry company (Ascher 1993b).

Finally, consider the sorry state of general tax policy and tax administration in most Latin American countries. Taxation is used as an extraordinarily ambitious instrument: taxes are often designed with the claim that they can stimulate investment in particular sectors, encourage family spending on health and education, redistribute income, and even change the nature of corporate structures. These embellishments reduce the capacity of governments to collect revenues, while also inducing unproductive uses of resources. The two Latin American countries that have done the most to reform their tax structures, Chile and Colombia, have increased both the volume and the fairness of taxation through the stunningly simple approach of designing taxes to collect taxes (Gillis 1988; Ascher 1988).

What do these cases have in common? They all involve ambiguous and muddled mandates, with little chance for a technical assessment of whether the policies and agencies are optimal. Is the education ministry's success in producing university graduates worth the failure to provide better and more thorough primary education? Is the conservation of existing forests worth the lower rate of forest development, and the poverty of families with traditional user rights in the forest? Is Costa Rican reforestation, albeit limited, worth the destruction of some natural forest and the loss of revenues for the central treasury? Is the sustainability of pine harvesting in Honduras worth the loss of biodiversity and the neglect of low-income forest dwellers? Is the pursuit of various non-revenue motives through tax policy worth the sacrifice of the additional revenues that a straightforward revenue-maximizing tax system could collect? Agency mandates are currently structured in ways that make these questions extremely difficult to answer in a definitive fashion.

These cases also involve incomplete internalization of the costs of poor policy on the part of the responsible politicians and administrators. Inadequate primary education does not threaten the jobs of the officials in the education ministries; it rarely threatens the job of the minister of education. Environmental degradation does not typically impinge upon leaders and subordinates in forestry agencies, any more than it impinges on other citizens. By the same token, impacts on the poor hardly affect policymakers or bureaucrats under typical circumstances, and even the damage done by poor tax regimes rarely comes back to haunt the officials responsible for them.

III. Principles of Accountability and Internalizing Policy Consequences

We can derive the following principles from such cases and from our diagnosis of their weaknesses:

1) Agency leaders and personnel should be held accountable for their performance in pursuing highly simplified, differentiated, single-objective

mandates. Lest this principle seem obvious, it should be noted that it is completely opposite from the prevailing conventional wisdom of "integrated" or "system" management, which attempts to give agencies jurisdiction over as many aspects of the activities and outcomes in a particular sphere or geographical area as possible. Here is the dilemma: The logic of requiring agencies to internalize the costs of their actions could be addressed by assigning an agency with responsibility to deal comprehensively with its programs and projects and their consequences.

What this would imply for Honduras is that the state forestry enterprise would be responsible not only for harvesting timber, but also for maintaining the ecosystems of the areas where harvesting is undertaken. If the agency and its leadership could be rewarded or deprived according to the quality of its conservation programs, as well as its performance as a timber exploiter, then the agency could find an appropriate balance In the very special circumstances of a top leadership that is ideologically committed to balance, such an approach could conceivably work. However, without this ideological commitment, a multiple mandate is likely to provoke a policy approach that sacrifices one or more objectives for the sake of the objective that serves the agency and its officials best. Experience seems to show quite clearly that agencies with multiple-objective mandates tend to put much greater emphasis on the objectives that most strongly enhance the agency's standing and resources.

2) Insofar as dynamic agency leaders are likely to be motivated by the desire to enhance the authority and standing of the agency, good performance should be rewarded by greater jurisdiction and greater budgetary discretion. Note that many so-called "performance contracts" are designed to accomplish this (Nellis 1989). The possibility that an agency may expand its jurisdiction through good performance opens up very promising possibilities for introducing competition within government, whereby the better managed agencies will be rewarded with more responsibility and more resources. This would not necessarily entail more elaborate and re-muddled mandates. Consider, for example, the more-or-less separate affiliate companies of Venezuela's state oil holding company, PDVSA (see Coronel 1983; Randall 1987). Maraven, Lagoven and Petroven are all exploration and production entities that exploit somewhat different but partially overlapping areas of Venezuela's land and offshore oil areas. In the areas where two of the affiliates have facilities close enough for either to be able to explore and exploit a possible oil area, the mother company will award the exploration rights to the company with the stronger performance record. This simple arrangement makes PDVSA

one of the few state enterprises in the world with an effective form of competition and incentives for efficiency and cost consciousness.

In the more typical case of a mainline government agency, it may not seem feasible or wise to provide budgetary discretion; after all, the central budget each year is supposed to cover the programmatic and administrative costs of the priorities chosen at the highest levels. However, there can be sensible arrangements whereby the agency can have a stronger guarantee that its budget for the following year will be predictably close to the medium-term (one- to three-year) budget planning that virtually all agencies undertake. There can also be sensible arrangements to allow well-performing agencies to enjoy greater latitude in how they allocate their budgets. Indeed, as mentioned below, this is essential for greater accountability and often for motivation.

3) Prioritization of objectives should be accomplished through the central budget, on the national, provincial, state or local levels, depending on how decentralized the provision of government services and regulation is in any given polity.[1] Other policies and sources of funds should not be available to deploy for the pursuit of costly objectives other than through the central budget. Imagine this scenario: the state copper enterprise succeeds in getting the government to impose a huge tariff on imported copper, in order to keep the enterprise in business despite its own inefficiency and the poor grade of copper in the country. The enterprise, and its allies within the government, invoke national security, arguing that the nation can maintain its military preparedness, and its potential to engage in an extended war, only if some of its copper needs are supplied domestically. The finance ministry, lured by the prospect of collecting more import revenues, may endorse this argument if the state enterprise pushes for tariff protection rather than a direct treasury subsidy. Now, in this case the merits of the national security claim are difficult to assess in a way that would be beyond argument or appeal. Surely having a domestic source of copper, all other things being equal, is better than not having it at all; surely there is some probability, though possibly quite small, that a war could last long enough, and the cut-off of copper imports would be severe enough, for the domestic stockpile to make a difference. But is this worth the deadweight loss to the economy of severely distorting copper prices and the waste of resources entailed in spending \$2 to produce a pound of copper worth \$1? Is this the most cost-effective way to enhance the nation's security?

As long as the state copper enterprise is mandated to contribute to national security, the problem is unresolvable without intra-governmental conflicts and politically costly judgments. Yet consider this alternative: the state copper enterprise, denied direct subsidies from the central budget and tariff protection, has no mandate other than to earn revenues from copper production – and by extension to avoid losses. If it can produce copper only at above-world market costs, it has no alternative but to approach the defense ministry to determine whether that ministry would be willing to devote some fraction of its budget to keep the state enterprise in business in order to produce a part of the nation's copper needs. If the defense ministry – the only entity mandated to pursue national security – decides that this use of defense funds is better for national security than, say, more missiles or soldiers, then the ministry should happily support the state copper enterprise. The defense ministry's decisions will be monitored and debated in the cabinet, the central budget agency, and the legislature; the ministry will have to make a compelling argument for or against supporting the copper production option. There would be no muddling of multiple objectives on the part of the copper enterprise; its task and performance criterion would be simply to produce copper as efficiently as possible without running a loss (for elaboration of this strategy, see Aharoni and Ascher 1991).

4) Agencies must be accorded sufficient discretion for their leaders and rank-and-file personnel to be legitimately held accountable. Discretion serves two crucial functions. First, it is essential for meaningful accountability. Criticism of judgment is sensible only if policymakers can exercise their judgment. Accountability for simply carrying out specific orders is an almost trivial form of accountability. Second, discretion is a powerful incentive for many of the most desirable agency leaders. Competent agency heads want to have enough rope to either hang themselves or show off their competence and dynamism.

IV. Supporting Perspectives

The principles outlined here reflect a remarkable convergence of thinking from at least five major approaches for understanding policy reform.

Rent-Seeking Theory

The complexity and non-transparency of current structural arrangements allow government and state officials to provide rent-seeking opportunities at acceptable political costs (for a review of the premises of rent-seeking theory, see Tollison 1982). If we think of government leaders as actors who are trying to pursue a complicated set of objectives of increasing their political power, possibly gaining personal economic benefits, and pursuing assorted programmatic goals, we can appreciate that the need to maintain a minimal level of political credibility will mitigate against the pursuit of venal or programmatic objectives at the expense of sound policy. The Costa Rican case mentioned above is a case in point. The Costa Rican government was able to enrich certain private businesses, some of them with no experience in the forestry sector, by covering a transfer with the misleading cloak of a false environmental campaign. The public was not in a position to evaluate either the costs of the reforestation program or its ineffectiveness. Yet when World Bank studies revealed the weaknesses of the program and its ulterior motives the Brazilian government abandoned it. The same thing happened in Brazil when the subsidies for cattle ranching in the Amazon were shown to be embarrassingly non-productive (Browder 1989).

Now, one of the arguments in favor of the shrinkage of the role and size of the state has been that the efforts by governmental and state actors to capture rents would be foiled by eliminating or reducing the scope of economic activities in which the state had direct involvement. And it is certainly true that the privatization of many state enterprises and the liberalization of trade have eliminated some of the most egregious ways that the state has captured wealth that otherwise would have been enjoyed by the population beyond the state sector. Nevertheless, rent-seeking and rent-capture have never been the exclusive province of state actors; they often entail exchanges among government, state and private actors. Thus the now more-visible problem, previously eclipsed by egregious direct state actions, is that government agencies can engage in self-aggrandizing and rent-seeking behaviors through mechanisms other than direct state actions.

The most extreme case comes from outside of Latin America, but it points to the possibility in Latin American countries as well. The case is Indonesian forestry, where the President's office and the Forestry Ministry have conspired to allow politically-beholden private-sector groups to capture vast natural-resource rents, especially in the timber sector. Private loggers pay a small fraction of the value of the timber they are allowed to remove from public lands. In turn, these private actors devote part of their gains to political and development initiatives that the President wants but is unwilling to finance through his own government budget (Ascher 1993a). In essence, the national patrimony is being siphoned off, incidentally at great and avoidable damage to the forests, to pursue objectives that the fiscal authorities regard as inadvisable. In short, the Indonesian government is not directly involved in these timber operations, but nonetheless manipulates timber policy in heavy-handed if not directly interventionist ways. The obvious implication is that rent-seeking does not evaporate with the removal of the state from direct economic activity; the potential remains in the government's capacity to regulate, set prices, and grant concessions to particular private actors.

Principal-Agent Theory

The second converging model is the principal-agent theory. When policymaking challenges are characterized by uncertainty and vague mandates, policymakers and administrators often take advantage, consciously or unconsciously, by pursuing policies that indulge their own interests and ideologies. This is the famous "principal-agent problem": the policymaker or administrator has interests that diverge from those of the principal, namely the people. Principal-agent theory is most advanced in the sphere of business administration rather than public administration. What can governmental reform borrow or adapt from the private sector approach to overcome principal-agent problems?

The principal-agent problem in business can be addressed in three basic ways: bringing the incentives of agents into congruence with those of the principals; increasing the sanctions against agents for taking actions that do not serve the principal; and increasing monitoring to reveal when agents take such actions. In the governmental and state spheres, the usual approach has been to increase monitoring and punishments. Yet this is where government and state are often (though not always) very weak. This is because:

(a) The monitored officials often have superior information and technical expertise, making it difficult for evaluators to determine whether a principal-agent problem exists;

(b) Performance evaluation is extremely difficult in the public sector, where the objectives of both principals and agents are much more complicated than the profit- or income-maximizing objective that predominates in the private sector. Therefore the lack of a single "bottom line" to evaluate the performance of a government agency with multiple objectives makes it much more difficult to establish its behavior as suboptimal. Consider the task of evaluating the performance of the armed forces of a particular country. If the complete mandate of the armed forces is to provide national security, the armed forces' levels of preparedness and effectiveness of actual operations can be assessed with a relatively high degree of technical agreement. One can still engage in both technical and philosophical debates over which profiles of preparedness are superior to others, yet the task is vastly simpler than trying to evaluate whether the armed forces are performing optimally if their tasks include promoting economic development, educating the population, building infrastructure, and so on.

(c) The monitoring officials often themselves are engaged in deviating from the actions that would enhance the interests of the nation – from the perspective of the lower-level policymaker or administrator, the "principal" may be one or more of these individuals who pose their own principal-agent problems;

(d) The capacity to punish is often highly circumscribed by civil service protections as well as by less formal political protection.

(e) Because of multiple-objective mandates, many public or state officials have "multiple principals," whom the clever official can play off against one another (Aharoni, 1982). When an action that can be criticized from the perspective of its efficacy for pursuing one objective can be defended by invoking another objective, and when one ministry can be brought in to protect an agency from the wrath of another, the politically astute agency head can often avoid accountability even if all the objectives are rather poorly pursued.

These are all rather well known limitations, raising the question of why government structural reformers have not focused as much as they should on the first approach, namely to bring greater congruence of interests between the government or state officials and the interests of the nation. The plausible explanations are both surprising and illuminating. First, the dominant Weberian-Wilsonian conception of executive-branch officials as merely implementors of policy makes the need for appropriate incentives seem highly questionable. If they merely carry out orders, why do they need to be cajoled or motivated to do anything but fulfill their job responsibilities? Second, the Weberian-Wilsonian conception of the rights and obligations of government officials and civil servants does not recognize the legitimacy of providing them with anything beyond their salaries and the satisfaction of discharging their responsibilities. Therefore, acknowledging that public servants have interests at all, beyond the minimal interests of a loyal employee, is rather alien to the prevailing conception of good government. This is a fundamental difference in perspectives about what is permissible for government reform. In a sense, 'realpolitik' is regarded by many governmental and non-governmental actors as inappropriate in addressing intra-governmental politics, because public servants are regarded as lacking standing as political actors.

Second, government leaders who might be in a position to structure agency mandates and incentives pose their own principal-agent problem: they have their own political interests to pursue and defend. The same ambiguities of mandates and poor information that provide flexibility of agencies to pursue their own interests also provide top government officials with both a way to evade accountability and their own flexibility to pursue their preferred agendas.

The limitations of applying private-sector remedies for principal-agent problems in the public sector are also illuminating (see Downs and Larkey, 1986). The main thrust of overcoming the principal-agent problem in business is to make arrangements such as commissions, stock options, employee ownership, etc. that yield the greatest financial payoffs to the agent when the principal realizes the highest profit. The obvious problem is that governments and publics rarely have profit maximization as their major (let alone only) objective; nor do agency officials. For a very limited set of governmental functions, such as exploiting non-renewable natural resources, perhaps the nation's objective ought to be to maximize revenue, and therefore the government agency in charge of resource exploitation ought to be rewarded by the right to retain a certain proportion of the profits – a commission as it were, one of the most effective instruments for reducing principal-agent conflicts. Yet in the general case, the set of objectives of nations and governments is obviously not a simple matter of maximizing financial profit.

Externality Theory

A very similar logic emerges from considerations of the phenomenon of externalities, first made prominent by public finance theories (Pigou, 1919) and later by the current approaches to preventing environmental damage. The argument, borrowed from approaches to preventing private actors from undertaking actions that impose costs that remain "external" to that actor, is that public officials somehow must "internalize" the costs of the inappropriate policies that they formulate and implement. The internationalization approach to dealing with private-sector externalities, for example through pollution charges, has been quite effective and efficient. The public sector analogue, than, is that public officials need to regret when the public, or various publics, suffer.

This principle can be both simplistic and terribly unfair unless it is qualified carefully. Officials should not be crucified for unavoidable failures, nor for mistakes based on decisions made out of appropriate motives. The issue is that public officials acting out of motives other than public interest need to regret these actions. Exhortation is clearly not enough; the incentives for public officials must be consistent with the public interest, and this typically requires that decisions and practices against the public interest be judged as poor performance, and that agencies acting against the public interest face institutional costs. Here, again, structural reformers will appreciate this insight only if they are willing to accept that government agency personnel make policy.

Bureaucratic Politics

Overlaying partisan politics and policy politics is the struggle among agencies to gain power, financial resources, security, standing, and discretion. To a certain degree, bureaucratic politics gives rise to the motivations to expand jurisdictions, claim broader mandates, create mechanisms to control funds off-budget, and enlist support from outside of the government through rent-seeking arrangements. The importance of bureaucratic politics is that it reveals many of these phenomena to be as much the extension of intra-governmental warfare as genuine efforts to tackle policy problems. The legitimacy of a defense ministry's claim that it has a mandate to educate the population is put into question when we consider the quite natural desire of the armed forces to justify a bigger budget, just as we may be skeptical of the claim of an education ministry that it deserves a bigger budget in order to contribute to military preparedness by producing better-educated conscripts.

Operations Research

Finally, it is worth citing the principle from operations research concerning the match between the number of objectives and the number of instruments. Even if the agency heads and subordinates have only the best of intentions to implement the policies and objectives of the higher-level authorities, the pursuit of multiple objectives by a single agency violates the simple rule that a tool cannot be efficiently designed to do more than one thing extremely well. A hammer that is also a screw driver is likely to be neither a very good hammer nor a very good screw driver. The failures we have seen in many countries' tax policies from pursuing too many objectives, and the failures in conservation and efficient forest extraction by the hybrid state agencies like Honduras' COHDEFOR illustrate this point vividly.

V. Conclusions: Fairness and Political Feasibility

Two high-level political issues must be addressed to conclude this analysis: the normative complications of the reform strategy I have been recommending, and the practical considerations of how to accomplish a reform that restricts the maneuvering of top government officials.

The normative question is whether centralizing the spending and subsidization decisions within the central budget process is defensible when those in charge of the process are themselves irresponsible, ill-intentioned, or otherwise inappropriate agents for the nation as principal? We can even push the issue one step further: Is it defensible to place so much allocative power on the conventional fiscal apparatus even if it were completely responsive to the "public's wishes" but the public (or at least the public that counts politically) is eager to create economic injustices or squander the nation's wealth? In other words, what is the remedy for an irresponsible principal? We often hear appeals from admirable agency officials that they would like to help neglected groups, or clean up the environment, or pursue worthy development projects, or keep some financial resources away from the pressure groups that often seem to dominate the budget outcomes, if only they had a way to wrest control over some resources from the central budget authorities. My response is simply that while it is true that the central budget process can produce outcomes that a particular observer may regard as horrible, this is a risk of both conventional budgetary allocation and off-budget subsidization. We certainly have no way of knowing, *a priori*, whether the scoundrels who wish to take advantage of off-budget slush funds are better or worse than the scoundrels who wish to pervert the central budget. The one thing we do know is that the latter type of scoundrel is more likely to be taken to task for his sins. As policy scientists, the most we can do is to suggest arrangements wherein bad or selfish decisions are more likely to be punished. Moreover, if an open, fully-debated, transparent budget fight among popularly-elected representatives yields a bad budget, the reforms necessary to turn the situation around are much deeper (including probably fundamental changes in political attitudes and possibly in the nature of representation) than any fiscal manipulations could accomplish.

Finally, what are the political obstacles to acting on the insight that as long as top government officials are highly prone to influence from rent-seekers, transparency is a great boon for both efficiency and equity? If deviations from service to the nation need to be visible before they can be discouraged, how can the very politicians who often benefit from their capacity to evade accountability be induced to make the administrative changes that would heighten transparency? From a rather cynical political economy perspective, we have to acknowledge that muddled mandates, over-complexity, and off-budget sleight-of-hand benefit presidents and prime ministers as much as bureaucrats.

The basis for optimism is the same insight that accounts for why the British political system became more democratically open even though the decisions to expand suffrage had to be made by the political class that would stand to lose the most from diluting their hold on power: the competition among elites. Examination of many cases of off-budget maneuvers and problematic claims based on shaky mandates reveals that for every high-level official or politician who is using these machinations, there is another official or politician with an interest in opposing it. In short, while bureaucratic politics is one source of the problems we wish to root out, bureaucratic politics also reveals the allies for efforts to accomplish these reforms. In Indonesia, for example, the major allies of the non-governmental organizations fighting to reform inappropriate forestry policies are the finance ministry and the national planning agency! These strange bedfellows are joined by the interest in preventing the presidency and the forestry ministry from diverting resources into the hands of the President's private-sector allies, thus bypassing the central treasury. The finance ministry and planning agency, with the additional backing of multilateral and bilateral funding agencies, have had some success in reforming these policies.

Finally, international organizations can play a major role in tipping the balance in favor of transparency. They not only have strong capacity to require governmental transparency, they can embarrass governments that try to hide suboptimal policies behind nice rhetoric. Certain international organizations also have some power to impose conditionalities for structural change.

In short, the fact that structural distortions in agency arrangements and policymaking processes reflect political strategies at the highest levels does not mean that those who would maintain these distortions are the only ones with significant power. The more these distortions are themselves made transparent, the easier it is to mobilize the coalitions for reform.

Notes

1 Thus, our principle does not imply centralization of all activities under the national government operating through its central budget. Government actions and responsibilities that ought to be undertaken by sub-national governments should follow the same logic of making expenditures at that level consolidated enough such that a healthy discourse can be held and the resulting actions are clear enough for public officials to be held accountable for their actions and the results.

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