

PUBLIC MANAGEMENT IN THE AMERICAN FEDERAL GOVERNMENT: HOW ARE THEY DOING AT HOME?*

Oscar Oszlak

*"We heard you loud and clear Friday when you visited our devastated city and the Gulf Coast and said, 'What is not working, we're going to make it right'. Please forgive us if we wait to see proof of your promise before believing you. But we have good reason for our skepticism."
Times-Picayune's Open Letter to the President, September 04, 2005.*

*"The logical extension of doing more with less is doing everything with nothing"
Admiral James Loy, Transportation Security Administration (TSA)
Deputy Secretary.*

Introduction

Academic contributions of Latin American authors on the subject of public management in the United States are almost nonexistent. Why not? Serious and systematic studies on the state, its policies and its bureaucracy only began to appear in the region during the 70s. The growth of the number of undergraduate and graduate courses specialized in those areas, the creation of an academic infrastructure as well as the formation of research groups - often educated abroad - turned most of the scholarly work towards the description and explanation of phenomena associated to the issue of public management in the region's own countries.

Therefore, it is not strange that only in exceptional cases has the interest of Latin American scholars been oriented towards the somewhat outlandish task of studying those very topics in such a foreign and complex institutional context as the American federal government. Furthermore, in this field of knowledge the United States has more than enough scholars, not only to address the problem in their own national context, but also, up to a certain point, to meet the demand for studies on public management in the rest of the world.

Indeed, it is this last realization that motivated me to approach the subject of this paper, based on the following rationale: if for decades our countries have been objects of analysis of American and European authors; if, on the other hand, many of their studies have incorporated wise diagnoses and proposals of change of our state apparatuses; if, furthermore, the formulas and prescriptions for reform that they have incorporated, through their work as experts of think tanks and multilateral organizations, have modeled the policies and programs of transformation of public management in Latin America, why not verify if those same conclusions and recommendations in their studies are present in the orientations and practices of their own government organizations? Perhaps the answer will allow us to review our beliefs about the supposed coherence that, implicitly, we tend to take for granted between what is preached and what is done in that country.

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This paper attempts to place the management of the American federal government in the focus of a research program that tries to determine to what extent certain aspects of this administration are really state-of-the-art and conform to the conventional wisdom on the matter, both in academic forums and in the preaching of multilateral loan organizations.¹

For this purpose I have selected two aspects which will provide an approximate idea of the present state of that management, although the line of research will include, in addition, other aspects.² In the first place, the controversial subject of the size of the federal public sector, which I will try to demonstrate that, far from adjusting to the anti-Big Government tenets, which are also present in the concepts of “Reinventing Government” (Clinton) and the “President’s Management Agenda” (Bush), has done nothing but grow, encompassing all areas of government.

In the second place I will analyze some characteristics of personnel policies adopted by the federal government, in order to offer a global panorama on the human resources that it employs, the capability of its employees, the view of the citizens about the federal workers, as well as other features of the civil service system that complete the analysis. In this context, I will examine the tendency of the present administration of raising to unheard-of levels the process of substituting federal employees with employees from private companies, particularly after the events of September, 2001 and the onset of the war in Iraq. Also in this case, I intend to show the existing breach between the type of professional career proposed by academia or the reports of multilateral banks, and the reality behind the data surveyed.³

Hurricane Katrina and its disastrous passage through the poorest states in USA, has done nothing but ratify, if this were necessary, the propositions presented in this paper about the low management capacity of the American federal government. Written before this event, the paper offers evidence for explaining the climate in public opinion that has emerged in the United States and the rest of the world, as regards the notorious demonstration of ineptitude of the government in dealing with catastrophes. But, perhaps more generically, it offers support to explain the enormous chasm existing between the bountiful academic production of scholars of that country and the poor performance of their government.

The true size of the American federal government

In 1983, Heller and Tait expressed their surprise about the small amount of information on employees and wages that was really available in the public sector. It is not that the information did not exist, but that it was difficult to establish common bases for a comparative analysis. They claimed that statistics needed to be credible but also noted that even if reliable information exists, there is always the issue of definitions. Public employees should be classified according to occupation, the status of their job and/or who pays their salaries. This criterion produces a complex hybrid of categories of public jobs and many gray areas. Countries differ as to what they consider government jobs, and therefore the same category is often used to refer to different situations.

¹ Bear in mind that these organizations condition their funding to the adoption, in our countries, of these “best practices”.

² Given the limited scope of this paper, the chosen subjects will only be briefly exposed, just anticipating certain important aspects that will be explored more thoroughly in the context of a line of research that has barely started.

³ In future papers I will deal with the federal government’s procedures with purchase and supplies, one of the areas of public management that, from the input side, are a major component of public expenditure in the United States. I will show the extreme vulnerability of the government in the implementation of its procurement procedures and, especially, in the weakness of its oversight and control mechanisms. I will also examine the subject of management contracts between principals and agents - one of the main novelties introduced by the Clinton administration -, whose objective was to definitely switch from control by processes to control by results. The evidence gathered allows us to conjecture that, far from achieving both these technological and cultural changes, the federal government has only been able to take some feeble steps in that direction.

Giulio de Tommaso (2001) tried to standardize these categories for comparative purposes, defining the terms General Government (including the civil service in the executive, legislative and judicial branches, the military, teachers, health workers, law enforcement and others) and public enterprises. He also split these categories into subcategories, placing the respective types of jobs in each one. Therefore, to determine the size of the government workforce, it was necessary to consider all the employees in these different categories.

On the other hand, Paul Light (1999), in a controversial book receiving wide media coverage, presented a striking point of view: The real size of a public administration is not limited to the number of personnel it employs directly; it should also include all the people who are indirectly employed through state suppliers and grantees, whose income is provided principally or exclusively by public funds.⁴ It is the case of employees who work in companies whose only customers are state organizations, and individuals that benefit from different types of grants.⁵ If this personnel is added to the labor force employed by the federal government, which by the end of 2002 was little over 4 million persons, total manpower becomes considerably higher. Therefore, this government would be maintaining an additional workforce, as it employs the services of a mass of people that triples the official number of government civil servants.

Figures in Table 1 correspond to manpower employed in the different categories of personnel. A first subtotal, that includes members of the civil service, the military and postal workers, adds up to 4.087.000 employees. To this number we must add all the workers at state and local level who, directly or indirectly, carry out functions directed by the federal government, who add up to 4.650.000 persons.⁶ Thus, personnel directly hired by the government adds up to 8.737.000 agents. On the other hand, workers of private companies assigned to jobs in the federal government total 5.168.000, whereas the grantees represent another 2.860.000 persons. This means that the "private" workforce doubles the civil service and represents nearly half of all federal government employment.

Table 1 Real Size of the American Federal Government

As of October 31, 2002

Job Categories	Quantity
Civil Service	1.756.000
Military personnel	1.456.000
Postal workers	875.000
Sub-total	4.087.000
Federal workers in state and local governments	4.650.000
Total government personnel	8.737.000
Grantees	2.860.000
Personnel hired by state contractors	5.168.000
Real workforce of the Federal Government	16.765.000

Compared to past estimates, the figures in Table 1 exhibit some contradictory trends. The true size of the government is still smaller than before 1990. With the end of the Cold War, as from the 1990s,

⁴ Light's book published in 1999 was followed, in 2004, by a study carried out by the Center for Public Service of the Brookings Institution, that Light presides, in which previous estimates are updated and comparisons show how employment evolved since from the Clinton Administration. The new data is from October, 2002.

⁵ In my opinion, it would not be case of pensioners, that have contributrd all or part of the pensions they receive during their working life, neither the recipients of insurances of unemployment benefits or welfare plans, unless they are expected to contribute some form of labor, in which case they could be considered de facto public employees. .

⁶ Consider that postal workers, separately, represent exactly 50% of the civil service, which not only shows its importance in numbers, but also the magnitude of a public service which in other countries, (such as Argentina) has been privatized many years ago.

there was significant downsizing in the government workforce, estimated in more than 2 million budgeted and extra-budgetary jobs, in the Departments of Defense and Energy, as well as in NASA. Nevertheless, after those cutbacks, the federal government progressively increased the numbers of jobs, "recovering" more than half of that number.⁷ While these agencies eliminated jobs, between 1993 and 1999 others added around 300,000 new ones.⁸ In addition, in the following three years (2000 to 2002), civilian agencies incorporated another 550,000, while the Department of Defense took on about 500,000 new agents.

It is necessary to point out that although a greater part of the increase after 1999 coincided with the last year of government of the Clinton Administration, most of the 1,1 million budgeted and extra-budgetary jobs added to the workforce, reflected an increase in spending during the first Bush (Jr.) government. A better part of these jobs were created by agencies involved in the war against terrorism, but there were also many in other agencies, such as the Health and Human Services Department.⁹

Light (2004b) points out three trends in the future evolution of the civil service in the American federal government:

1. *The federal civil service will continue to shrink.*

Even though the workforce hired through contractors and grants grew by 1,5 million jobs since 1990, the federal civil service lost nearly 500,000 positions. The civil service is only the tip of an iceberg that hides an enormous apparatus in the service of the government that, however, will continue shrinking as regards this component.¹⁰

2. *Savings in terms of job cutbacks, which resulted following the end of the Cold War, will soon disappear.*

Employment outside Defense, Energy and NASA actually increased by more than 300,000 between 1990 and 1999, because the Clinton administration spent part of the savings produced by the ending of the Cold War in domestic political priorities. Between 1999 and 2002 1,1 million jobs were created which, at this rate, means that these savings from the 2 million jobs that were cut will

⁷ These numbers are taken from the triennial inventory that the Center for Public Service prepares, based on estimates produced by Eagle Eye Publishers. .

⁸ When recording their achievements between January, 1993 and September, 2000, the NPR (National Partnership for Reinventing Government) led by Vice-president Gore, indicated in a report that the Clinton administration had cut the size of the federal civil workforce by 426,200 jobs. There were reductions in 13 out of 14 Departments. Only the Justice Department grew – allegedly due to the fight against crime and drugs. The workforce, according to that report, had reached its smallest size since the Eisenhower administration. .

⁹ The number of contract workers would have been even larger (and the cuts in the civil service deeper) if the Bush administration had won its battle to outsource the jobs of luggage inspectors in the new Transportation Security Administration (TSA). But although at present these inspectors are federal employees, the TSA still uses private contractors to recruit and hire them, as well as to manage everyday administrative and personnel functions. The Bush administration and its allies in the House of Representatives also won the battle to allow the contractors to operate in the control points of five great airports.

¹⁰ The more recent figures available (OPM, 2005) indicate that total civil service personnel in the federal government, was 2,713,229 employees in September, 2004, not including military personnel. In Table 1, civil personnel total 2,631,000 employees, which would indicate that contrary to Light's prediction, federal employment continues to rise. Nevertheless, it is important to mention that between October, 2002 (data in Table 1) and September, 2004, there was a substantial reduction in postal workers, which fell from 875,000 to 767,616 employees, i.e., by more than 100,000 persons.

certainly disappear in the coming years. The "reconstruction" of Iraq and the reinforcement of homeland security, among other reasons, may lead to that outcome.¹¹

3. *The workforce employed through contractors is growing throughout the government.*

With the exception of Energy, NASA and a handful of other civil agencies, employment by way of contractors and subsidized personnel has been on the rise in all the government agencies.¹² The increase in Defense took place exclusively through contracts, whereas a third of the growth in the non-Defense agencies had contracts with suppliers and two thirds had subsidies.

The trends reflect the gradual substitution of public employment by private jobs, as well as a growth of military manpower at the expense of civilian personnel. This, in turn is an expression of the marked tendency towards the flexibilization of public employment. However, the increase of military personnel may be a phenomenon that may reverse itself in the short term, while this tendency could become the first step towards the privatization of the security and the war.¹³ If this were the case, it would beg the question of what status - civilian or military- would be given to these "private" employees.

In any case, the heterogeneity of the present composition of the work force in the federal government has been an "accidental" result,¹⁴ more than the product of deliberate planning. Faced by natural attrition, frozen vacancies and early retirement, the agencies made every effort to maintain or to increase their manpower, while at the same time the government was promoting the elimination of rules and practices that restricted the free hiring of human resources, as well as the outsourcing of services previously provided by state workers.¹⁵ A veritable Leviathan has risen from these opposed logics, hiding behind consistently small civil service over time, with a "shadow" workforce that is several times larger.¹⁶

In a society like the American one, which does not trust Big Government, the political incentives to create the illusion of a small government are evident. The long shade projected by that hidden workforce, raises a series of questions closely associated to some of the central issues of the federal government's agenda on reform: What new role must its agencies fulfill? How can the government workforce be minimized, in view of these new roles? Which are the desirable limits of private participation in public management? To what extent do the existing mechanisms of regulation and control ensure that this participation of the private sector adjusts to criteria of quality and effective production of public value? These are the questions that I will address in the next sections.

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¹¹ The new jobs are mainly to strengthen the Homeland Security Department, while at the same time they are probably offset with cuts in other sectors, as budget restrictions and the use of contractors appear to indicate.

¹² Does this growth merely reflect the fact that the United States is currently waging a war against international terrorism? Not necessarily, responds an NGO for the defense of democracy: although the areas of homeland security and defense explain many of the new jobs, virtually all the areas of government are increasing, whether or not they are dedicated to defense. Furthermore, many of the new jobs in defense are the result of contracts with manufacturers of arms, airplanes and other equipment and similar services and not because of more uniformed personnel. On this subject, see the article Reclaim Democracy (2003) in http://reclaimdemocracy.org/weekly_2003/big_government_makes_comeback.htm.

¹³ An expression of this phenomenon is the fact that the Pentagon plans to reduce or close 62 bases and 800 smaller facilities. This includes the repatriation a significant number of troops (70,000 altogether), and the removal of forces stationed in countries like Germany. This decision raised the obvious objections of legislators from the states affected by the job losses in these bases (as well as indirect jobs). See WP, 13/5/05.

¹⁴ The quotation marks, naturally, suggest that almost nothing is accidental, so, without adopting a conspirative stance, this outcome could be explained by the complex set of interests that surround in this issue, and the narrow political-ideological parameters that constrain the decisions of those involved.

¹⁵ For example, these changes allow the military to outsource or privatize some of their activities. Secretary Rumsfeld recently stated that almost 320.000 jobs currently occupied by military personnel may be transferred to the civil service. (Arizona Daily Star, January 29, 2004)

¹⁶ Apparently, these trends are also present in the states of the Union. For example, in Florida, by the beginning of 2001 "Government 'Outside' Workforce Exceeds Number of State Personnel System Employees" (OPPAGA Special Review, Report No. 01-13, March 2001).

The new role of the federal government

In 1996, in one of his more inspired political moments, President Clinton declared that "the era of the Big Government was over". Perhaps he had reached the conclusion that there was some truth in conservative warnings about the growth of a government with uncontrolled public spending, which Americans referred to as "runaway government". Of course, the conservatives had gone too far when suggesting that all non-military government was bad government and that all cutbacks are good, but it is reasonable to assume that too much public spending and a bloated bureaucracy can have negative effects on the budget, the national debt and government programs.

When George W. Bush was installed in the White House, the more extreme conservatives hoped that their beloved anti-government dreams would come true. Finally one of them was in charge, and it was reasonable to expect that, once and for all, regulations would be eliminated, a large part of the civil service would disappear and the government would be dismantled in a manner that even libertarians would approve. They could not imagine that Bush had no such plans and that, in fact, in his own way, he would create an era of elephantine government.

This recreation meant not only a fundamental change in the political philosophy of his government, but also in the classical operations of the lobbying apparatus, so dear to the "spoils system" of powerful interest groups. By the end of 60s, Lowi (1969) coined the phrase "interest-group liberalism" to describe a system of formulation of public policies motorized by organized lobbies and mobilized by narrow sectorial interests, that not only went against the general interest of society, but also contributed to the formation of an uncontrollable federal bureaucracy that the author likened to a gigantic amoebae. This system characterized the successive administrations from Richard Nixon to George H. W. Bush. Even during republican governments, the liberal lobbies continued to press for new programs, regulations and the promotion of rights of several minorities through their democratic allies in Congress, the federal agencies and even in courtrooms. This trend seems to have been partially reversed during both of the Clinton presidencies, taking into account the efforts to reduce the federal bureaucracy.

That is why in his first term, the current president was expected to honor his electoral commitment to reduce the size of the government. Nevertheless, at the beginning of his second term, the orientations of his policies reveal that the old liberalism of organized interest groups is still alive, although it has suffered some significant changes. The republicans have taken over of the old spoils system and have placed it at the service of their new political philosophy, which one author has baptized as "interest-group conservatism" (Weisberg, 2005), i.e., the expansion and exploitation of the government by conservative persons and organizations who publicly advocate its shrinking.

When the democrats governed, the political coalition and the direction of their administration included powerful actors, such as the civil service and teachers unions, women, human rights movements and the lobbies of homosexuals, pensioners, pro-welfare state groups, the entertainment industry and lawyers. Weisberg emphasizes that a characteristic feature of the democratic government was the disproportionate emphasis on policies that were of more interest for these groups than for the whole country: labor protection for teachers and public workers, expansion of "affirmative action" and abortion rights, opposition to the reform of malpractice legislation, bigger benefits for senior citizens, and so on.

On the contrary, conservative groups that are currently in power form a constellation at the opposite end: big business (especially in energy and military supplies), evangelical Christians, big investors, arms owners and the right-wing media. The old model remains intact, but the protagonists who are seen daily in Congress, in the regulatory agencies and the corridors of power, have been replaced by

these new groups and their sponsors, whose actions only enlarge the federal government and strengthen its increasingly intrusive character.

The recipients, promoters and causes, which are behind these initiatives and policies, are also different, but the paradox of this new situation is that the Republicans end up adopting government orientations that not only are in contradiction with their philosophical principles, but in doing so turn Washington into a deranged spoils system that favors special interest groups and feeds a gigantic and ineffective bureaucracy .

A study by the Cato Institute reveals that the 101 most expensive programs that Republicans from *Contract with America* had proposed to eliminate in 1995 as unnecessary, have actually increased their expenditures by 27%, under a Congress entirely dominated by the G.O.P. Likewise, the concept of deregulation has been replaced by a demand for greater regulation on morality, while the demand for greater judicial self-control has been replaced by a greater pressure for right-wing judicial activism. According to several observers, the omnipresent policies that favor special interests, impelled by the current federal administration and by Congress, is not only hypocritical but also corrupt and even ridiculous.¹⁷

Different factors assisted the decline of liberalism in the interest groups during the 90s: the activism of the *Democratic Leadership Council* as institutional counterweight of the liberal lobbies, the reformist instincts of Bill Clinton and the unexpected defeat of the democratic Barons in Congress. What factors could curb the conservative special interest groups in the coming years? The nearest equivalent to *Democratic Leadership Council (DLC)* is Cato Institute, a extreme right-wing think tank, whose main ambition is to reduce the size of the government just as the Founding Fathers advocated. However, it seems improbable that their lonely preaching from that end of the ideological spectrum will be enough.¹⁸

Let us observe in what ways the current president revealed his new orientation. As is well known, since his first term, the private sector labor market in the United States lost almost 3 million jobs. In an attempt to create the illusion in the public opinion that those jobs could be recovered, he created the post of "Job Czar" in the Department of Commerce, which earned him the criticism and the sarcasm of the media, with predictions that this new undersecretary and his brand-new bureaucracy would follow the steps of the hapless "Drug Czar".¹⁹ He also inaugurated the Office of Faith-Based Initiatives, a Commission on Educational Excellence for Hispanic Americans, a Postal Commission, a new position of Assistant Secretary to Aid the Manufacturing Industry, the 9/11 Commission, a panel on cyberterrorism, the Council on Civic Service and Participation and a series of other units and programs.

¹⁷ The last year has been prodigal in embarrassing episodes for the government, like the payment to a para-journalist to promote an increasing federal role in education, an area in which some time ago the conservatives considered the need to eliminate the respective portfolio; or the case of the ex-director of the Christian Coalition Ralph Reed, moral opponent of gambling, who collected US\$ 4 million to collaborate with the fight of a tribe of North American Indians for its casino, against of the casinos of other tribes; or of the new president of Corporation for Public Broadcasting, another organization traditionally opposed to the conservative philosophy, demanding greater space for the conservatives in name of the "balance".

¹⁸ The Cato Institute has less weight than the DLC when the democrats governed. In Congress, Senator McCain could be a balancing force in view of his anti-lobby position, but the opposition within the establishment of his party is stronger than what Clinton faced in his time. Even if republicans suffered a defeat in mid-term elections election, their supremacy in Congress would not be greatly affected. Apparently, the conservatism of the special interest groups will remain for a long time.

¹⁹ To make matters worse, the person nominated for the position had fired 1.800 workers in five plants in his own company, and opened a new plant in China.

Another of his main creations, the Department of Homeland Security (DHS), has attempted without success so far to reorganize the functions of national security, very debilitated by the incompetence of the CIA and the FBI. Although it does not include these agencies, the DHS is the largest government body created in decades.²⁰ At the same time this paper was being completed, the federal government announced an overhaul of this organization to improve its performance, barely two years after its creation. It is very likely that this overhaul will also include FEMA (Federal Emergency Management Agency), which belongs to the DHS, and which attracted so much criticism over its incompetent handling of the emergency created by Hurricane Katrina.

The agenda of President Bush's second term will not only enlarge the size of the federal government through the creation of new institutions: also it will exert an enormous influence on the life and culture of millions of Americans, by imposing new restrictions in high schools, courtrooms and even marriage preferences.²¹ In addition, in a clear break from past positions in favor of a smaller government and more power for the states, Bush is promoting an age of new federalism in which the national government modifies, but does not shrink, programs and institutions to align them with several conservative ideals, as perceived by republicans inside and outside the White House (VandeHei, 2005).²²

Bush demands greater federal accountability and testing in high schools, after having imposed similar mandates for third to eighth grades during his first government.²³ He also proposes to cap federal compensation for damages due to medical malpractice, in order to limit litigation against companies and professionals; to force class action lawsuits to be judged in federal courts and to help to create national arbitration in outstanding cases related to the asbestos contamination. These reforms are clearly aimed at gaining control of the national school system and its orientation, at the expense of the states, as well as releasing the professionals and the businesses from legal liability.²⁴

As for social policies, the president is backing the introduction of a constitutional amendment that declares gay marriages illegal even if they are admitted in the states, and continues to define and

²⁰ Bush created the DHS as an answer to the events of 9/11. The Patriot Act gave ample power to the federal government to investigate, as well as a considerably larger defense budget. These trends contradict the dogma of the Republican Revolution of 1995, when from Senator Dole to the Speaker Gringrich all advocated the elimination of whole departments, including education, the downsizing of government and empowerment of the states and the citizens. The Republicans spoke of devolution, of non funded federal mandates and of suppressing government programs with the same zeal which they use today in the fight against terrorism and the restructuring of Social Security.

²¹ The budget sent by the government to Congress includes an extra \$100 million to "promote healthy marriages" and \$1,500 million for a "high school initiative", which carries on with the offensive advance on the administration to gain control of the nation's schools which started with the No Child left Behind Act (Edwards y Reynolds, 2005).

²² A good example is the great expansion of Medicare benefits by adding drug prescription coverage to the 2003 program

²³ Fifty Republican legislators got together in Baltimore not long ago to discuss, among other things, their opposition to Bush's high school education plan as it involves encroaching on the states. If during his first term only 33% of the Republican block opposed the law that created the program No Child Left Behind, now a much higher percentage was expected to vote against the expansion of the program at high school level. In fact, the political-ideological affinity of the legislators with the Executive came into conflict with the interests of the states they represented. Even the Heritage Foundation, one of the most conservative organizations in the U.S. predicted that the proposal would be still-born

²⁴ Even one of the experts of the Cato Institute criticizes Bush for continuing to expand the role of federal government in state affairs, and hopes that the republican "big government" be defeated in elections. Congressman Pence also shares this hope. From his point of view, the only reason why Republicans have so far avoided paying the political price for ignoring the enormous expansion of the government is the failure of the Democrats to nominate a deficit hawk as presidential candidate and so capitalize on the public's yearning for smaller government. But by insisting on abandoning their historical beliefs, the Republicans run a serious risk of losing future elections.

expand the role of the federal government encouraging the religious groups to collaborate in the administration of social programs, such as community efforts for the rehabilitation of drug addicts. The fundamentalist roots of his government also are expressed in this type of initiatives. During Bush's first term, the director of his Council for Domestic Policy, John Bridgeland, declared that "we have gone from devolution,²⁵ that involved returning as much power as possible to the states, to a situation in which the government is limited but active." So far, it would seem that the demands many conservatives have made to Congress to turn over some programs to the states, such as spending on highways²⁶ and the giant Medicaid, have not found sufficient echo.

Republicans have massively voted almost all the initiatives of the president and most support his plans to expand, as already indicated, the federal role in courtrooms, marriage and other social policies. In order to pass rigorous school tests and to introduce accountability -two objectives of many conservatives- Bush pushed an enormous increase of expenditure in education and expanded the power of the federal government to include law enforcement in schools, two ideas that a decade ago would have been considered a heresy by republicans.²⁷ As for lawsuits, Bush and most of the republicans back the idea of placing a cap on the compensation for damages in guilty cases, which - as I just indicated- would create a freer market for doctors and consumers, but would encroach on the powers of the states.

In some areas, Bush has demonstrated intentions of reducing the size of the government. During his first term he introduced three tax cuts, which reduced government revenue; in 2004 the budget had a small nominal increase in defense expenditures and there have been calls for austerity for the current budget.²⁸ In spite of deep cuts in domestic programs of the budget, nevertheless, the second presidential term appears to be more focused on rethinking rather than shrinking the role of the federal government. Even Bush's own plan to create individual social security accounts, presented as an initiative that would allow fellow citizens greater control on their pensions, would require a much greater bureaucracy to administer it. In any case, the initiative is essentially about privatizing, which coincides with the general tendency of his government.

It is evident that the present direction of the Bush administration implies a significant advance in the concentration of power in the Executive, by: (1) the alliances with big state contractors who will gradually replace the governmental agencies in the provision of public goods and services and, in fact, would privatize the government; (2) social control of the actions and behavior of the citizens, using fundamentalist arguments based on religious values and on tenets of retrograde ethics; (3) the generation of a permanent climate of terror and insecurity, that places the government in a position to consider itself as the only instance able to stop the "forces of Evil" and to "globalize democracy"; and (4) the advance of the federal government on the state governments, encroaching on their areas of competence and making the "devolution" of other previously appropriated competencies more selective, which goes against the principles of decentralization, so dear to the reformers of the New Public Management.

The current situation and the future of employment in the federal government

²⁵ A term meaning the return of power from a higher to a lower level of government.

²⁶ What occurs, in appearance, is that the Bush Administration has increased a contradictory combination of centralization and regional alliances in Congress. For example, in the case of investment in roads, the senators added 11.000 million dollars to the Highway Bill introduced by the executive, which was voted almost unanimously at the end of July, 2005. According to the bill, 6361 projects in roads all over the country would cost US\$ 300.000 million by 2009, financed by the Highway Trust Fund.

²⁷ Although spending in education has risen, most schools will receive less funding for students from low income households. In 2005, 55% of the schools will get less money than in 2005 (NYT, July 4 2005).

²⁸ Even so, the level of expenditure has been explosive under the Bush Administration, as well as the annual deficits. The government spent 2.3 trillion in 2004, with a deficit of 412 billion, compared to 1.8 trillion in expenditure and a surplus of 86 billion in the last year of the Clinton administration.

In the two preceding sections I analyzed the expansion experienced by the federal government, which is partly explained by the gradual growth of personnel hired by private contractors, in line with the new dominant political-ideological trends in the present federal government. Further on we shall see how the networks of public-private interests work to promote this continuous enlargement of the government, and which would be the desirable limits of its "privatization".

But before I shall try to characterize the current vision on government employment, based on some recent surveys and evaluations. One of the most complete was carried out by the Center for Public Service of the Brookings Institution (Light, 2002).²⁹ Its conclusions indicate that after the attacks of 9-11 the opinions of public employees on the quality of their work life and the level of job satisfaction have worsened. A smaller amount of federal employees turn up for work for valid reasons; a still smaller number feel that their agencies provide the tools and the training to carry out the job properly and another even lower number thinks that the organization is carrying out programs and services adequately. The people surveyed also inform that morale of fellow workers has fallen, that it is increasingly harder to obtain the resources required to work properly, that there is great uncertainty about the relation between what they do and the mission of their agencies and that they have less confidence that their own organizations do what they would have to do. Finally, the opinions indicate that the federal government continues to have difficulties in compensating a job well done and that its workforce does not have the trust and respect of the people they serve³⁰

Similar surveys with private sector employees before and after the attacks of 2001, conclude that morale between colleagues is higher, that job satisfaction is higher, that their companies have greater contact with personnel, that work is properly done and that workers are proud of their workplace. As these surveys were carried out during a recession, it would seem that this situation did not affect the opinions of the workers.

Based on similar surveys, the National Commission on the Public Service³¹ released a critical report which highlights the need for a fundamental reorganization of the federal government, and at the same time takes a position regarding conditions that the flexibilization of the civil service should have:

“The needed administrative flexibility cannot be a license to evade the discipline and safeguards that are inherent in effective public service – the need for openness and transparency, avoidance of conflicts of interest, levels of pay broadly acceptable to the public, the protection of employee rights, and defense against political bias.” (Volcker, 2002).

A more recent survey, carried out by the OPM (Office of Public Management) shows that 68% of the federal employees are satisfied with their job and that 71% plan to remain in their positions for over a year. But the survey, that gathers opinions of 150,000 employees and was made at the end of 2004, also reveals that thousands of employees are looking for an alternative job within the public sector or considering retirement plans. The turnover in the workforce is almost certain to lead to pressures for recruiting new workers in agencies that have stable or shrinking budgets in the next two years. Nevertheless, the political civil servants could freeze new entries or make very cautious decisions in covering vacancies. Others could encourage early retirements by means of cash buyouts, that are legally admitted (WP, July 11 2005).

²⁹ What is interesting about this study is that it allowed the comparison of two samples with the same persons, taken in may 1999 and January 2002, i.e. before and after 9/11. The study was directed by Paul C. Light.

³⁰ It is interesting to highlight, although the results should not be a surprise, that within these general trends, the employees of the Department of Defense point out, instead, that they have more opportunities of performing well, and perceive better results in the performance of their peers, although morale at work and the feeling of scant achievement is similar to the rest of the sample.

³¹ This self-named commission is an NGO presided by Paul Volcker, and it gathers prominent politicians and professionals who are concerned about the current situation and the fate of the public administration in the federal government. Its motto is “*Good Government is Important Society*”.

According to this last survey, around 16% of federal employees are considering leaving their organizations for some other job in the government. In some cases, the percentage is higher. In the own OPM, the percentage rises to 21,8%; in the Department of Homeland Security, 20,1%; in the Department of Defense, 19,6%; in OMB, 18.1% and in the Department of Education, 17,8%. In addition, a 12% of the people surveyed indicated that they plan to retire within the next the three years, although the percentage is higher in the AID, the Social Security Administration and the State, Energy and Defense Departments.³²

These data, along with others, confirm one of the major problems faced by the federal administration of the United States: the difficulty in recruiting new generations of Government civil employees. The civil service has fallen into disrepute and the government has had to make enormous efforts and campaigns to awaken vocations of potential candidates to enter the civil service. The Partnership for Public Service has organized events to promote the interest of potential candidates in a career in the civil service (WP July 13, 2004). But a survey of this same organization, which included 600 voters, reveals that most American citizens reject the growth of federal jobs, and 56% base their opinion on "excess bureaucracy" (WP August 18, 2004).

The problem of recruitment is not reflected solely in the amount of new workers but, mainly, in their quality. The manifestations of this phenomenon are multiple. For example, the public sector lags behind the private sector in efforts to turn interns into permanent workers. In the federal program Student Career Experience Program, 19% of students were taken on (out of a total of 15,756 students that participated in the program in 2003) against an average of 45% in private companies (WP July 13, 2004).³³

Other evidence is provided by a recent study on the first university graduates who started to study a few days before 9/11. Th class of 2005 is first one that has acquired a higher education at this level, influenced by the 9/11 attacks and the subsequent war on terrorism. A survey of 800 graduates in the final month of their academic careers, added to 100 in-depth interviews to members of the same group, provides an invaluable source to verify to what extent that experience affected the vision the students have of the government, the role of patriotism in their choice of careers, the key factors that could have influenced their interest in the public service and what government agencies can do to recruit the most talented young people.

The results of the survey are summarized in the following conclusions:

- The graduates of the Class of 2005 are "practical patriots" who were deeply affected by 9/11, but most of them did not alter their choice of career. Only one in five students declared to be interested in public service and a much smaller number considered their possible entry to the Armed Forces
- The opportunity to recruit a new generation for public service is closing, partly due to the polarization regarding the war in Iraq. When asked what event had the greatest impact on their vision of the United States, the students were divided between 9/11 and the war in Iraq. More than three quarters of the students surveyed indicated that the war produced a more negative vision of the country, that they expect a new terrorist attack but that they are more afraid of the prospect of unemployment or the contraction of credit than of a possible new attack

³² Most of employees that were surveyed were located in middle and higher levels of the scale, with a seniority of over 10 years: 31% had 11 to 20 years seniority and 43%, more than 20 years of service.

³³ In another related note, Jo Ann Davis (president of the Civil Service Subcommittee of the House of Representatives) pointed out in hearings with functionaries of federal agencies, the excessive time elapsed until the contracts of the federal government are available.

- The upswing of patriotism, generated by 9/11, did not give the government *carte blanche* to recruit talents. In fact, less than 10% of the students surveyed said that the main reason to consider a public job was the opportunity to serve the government. A recruitment effort that is successful does not simply have to show young people the difference that working for the government can make in their lives, but must also take care of their practical concerns, such as pay and prestige, wages adjusted to market values, real incentives for better performance and a consistent effort to improve the public sector's reputation in the eyes of the public, which would enhance the value of a public job.
- The graduates believe that their parents would feel prouder if they started their own business or got a job in a private company than if they went into public service. The proportion of graduates that think that this last choice would make their parents proud falls as the grades of the students improve. The most talented ones, that obtained excellent marks ("A" students) showed less interest in a government position than those that obtained a "B" or "C". Finally, though democrats, republicans and independents showed similar degrees of interest in serving in the government, those that described themselves as "very conservative" exhibited more interest in doing so than those that described themselves as "very liberal" ("The Class of 9/11", Partnership for Public Service, May 29, 2005)

Some of the results of the study of the Class of 2005 indicate that the wage levels and other incentives are important aspects that potential candidates for public jobs seriously consider. The budget crisis has lowered the index of wage increases of state employees throughout the country. This could have a decisive long term impact in the government's capacity to maintain the quality of the work force. Many professionals may choose to leave their job in the government for positions with higher salaries in the private sector. These trends in wages do not only apply to the federal government; they are even more negative in the state governments.³⁴

The current personnel systems of the federal government are over fifty years old and only recently have been under review. One of the main innovation being considered (and scarcely implemented to date), is *pay for performance*. Although this system has already been used in the American public sector, the government's present aim is to generalize its use. The initiative has been surrounded by great controversy and only recently, as this paper is being completed, the Executive has revealed its real scope (WP July 20, 2005). Briefly, pay for performance will place the government closer to private sector practices and models, by allowing annual increases of salaries to vary according to occupation and market demand, as well as tying the increases to performance at work. The reform would be applied to more than one million employees still covered by the General Schedule, mostly white-collar employees; to the Federal Wage System (mainly blue-collar workers) and to those in "senior level" and "professional and scientific" positions.

According to current practices, the president recommends a wage increase in his annual budget and Congress makes the final decision.³⁵ Under the new system, the White House and Congress would continue to establish an average increase, but individual paychecks would vary according to how much similar tasks outside the government are paid and according to marks awarded in performance assessments. In order to carry out this proposal, the Bush administration offered some examples of how the increases would be calculated on the basis of these criteria.³⁶

³⁴ According to an annual survey on salaries paid to scientists, professionals and other occupations, that is carried out in 50 states and the District of Columbia since 2002, during the period from 2002 to 2004 the median of the surveys estimated that the average increase in salaries for all occupations was 4.63%, while state workers only got a 0.45% increase. See AFT Public Employees Compensation Survey 2004, June 2004.

³⁵ For example, Congress has just authorized an increase of 3.1% for fiscal 2006, for all personnel, both civilian and military, under the principle of "parity of pay". The proposal of the White House gave civil servants a smaller increase of 2.3%, which Congress rectified.

³⁶ For example, for an annual salary equivalent US\$ 70.000, the employee that has been qualified as outstanding in performance will get a raise of US\$ 2.100 for that item, a national market adjustment of US\$ 770 based on occupation and

Nevertheless, an evaluation of this or any other proposal should be tested according to the conventional wisdom on pay for performance and the experience acquired in the current application of the system. In theory, there is a set of preconditions for the successful implementation of a system of this type (National Academy for Public Administration, 2004)³⁷ The following is required:

- Clear connections and links between the goals of the organization and the expectations of individual performance
- Leadership of the process from the highest level to the rank and file level, as well as active involvement and participation of personnel
- Transparent performance assessment carried out regularly in all organizations
- Flexible wage structure
- Substantial incentives for good performance
- Firm handling of average and poor performances
- Accountability of managers for the performance system.

The experience in the use of the system in the private sector also provides important lessons to consider when introducing it in the public sector, such as the links with personnel planning and recruitment policies; the use of strategies of negotiation; the involvement of leaders and special committees; the relation of the system with career development policies for personnel; payment in term of incentives and transparency in the process; capacity to deal with poor performance; or empowering personnel to take on greater responsibilities.

In conclusion, the experts of the National Academy for Public Administration consider that the introduction of *pay for performance* is very complex, it will take time, be expensive and require a real cultural change. Yet, the proposals that international scholars and specialists have presented to those in charge of public management in Latin America, have generally ignored the necessary caveats that should be considered before implementing this type of systems.

In any case, the American experience only confirms the conclusions of the experts. At the beginning of 2004, Defense and Homeland Security employees and executives wanted the new system to be in use rapidly, but resulting difficulties prevented this. One of them is the fact that, just as in Latin America, performance evaluation as an incentive to improve work, or end in dismissal in the case of poor performance, appears to produce indifferent results. For example, a study by Cato Institute indicated at one point that only 1 in 5000 non-defense workers are fired for poor performance every year. On the other hand, the State Department, notorious for its poor management in everything, from visas to secret documents, has dismissed only 6 persons since 1984, out of a total workforce of 28,000. According to the OPM, the percentage of dismissals is very low because the employers fear that their decisions will be reversed and, as result, they may be accused of discrimination. As the majority of personnel cannot be dismissed, there is no incentive to work more.³⁸

Bureaucratic ineptitude is not simply the result of the inability to fire workers. Neither do the government agencies adequately compensate good performance. Employees climb the wage scale automatically and most of them do not believe that performance has something to do with salary

the pay scale; and a local market adjustment of US\$ 1.400 based on occupation, pay scale and location Total increases add up to US\$ 4.270, equivalent to 6,1%. An employee qualified with "Exceeds expectations" will receive a total increase of US\$ 3.220 (4,6%); another one qualified as "totally successful", US\$ 3.080 (4,4%) and finally, an employee with "less than totally successful" will receive practically no increase..

³⁷ The following analysis summarizes some of the conclusions of the participants of the Forum of October 21, 2003 organized by the National Academy for Public Administration, a non-profit and non-partisan independent entity created by Congress in 1967. It advises political leaders on issues of government and public management.

³⁸ According to Michael Shiba (2003), the intervention of the trade unions makes it impossible to dismiss federal employees. Trade unions also influence competitive sourcing, as many contracts are through companies that employ non-union workers; later on when they join a union, they distort the costs declared in documents of the tender the company won.

raises, as appears in a survey carried out by the OPM itself. Also, the way in which federal personnel is evaluated is not based on performance. Just consider that usually a bare 1% of workers are considered to be below the "absolutely successful" mark. Why should the situation alter if the changes announced in the pay for performance system are put into practice?

With his deliberately caustic style, Behn (2004) has described the type of challenges that the implementation of the system faces in a single question that involves four others. Says Behn: "Who is going to decide who has an increase of how much and for what kind of performance? First "who", is the head, the person who is supposed to know how each employee has performed. But in fact, as Behn indicates, workers have many bosses. The second "who" is the person who gets the raise. Many times the government limits the number of raises based on performance, to 20% or 25% of the staff. Therefore, if only 20% can receive an increase, 80% will automatically be described as "losers". This 80% will be disheartened, and pay for performance will not increase motivation. The third point is how much will pay be increased. Usually budget restrictions work against any guarantee that the resources to finance this system will continue to be available over time. The fourth challenge implies deciding what "good performance" is, as different persons carry out different tasks. Behn wonders how a person in charge can compare "apple gatherers with orange pickers".³⁹

Although the idea of pay for performance is attractive and, in fact, Behn does not reject it, his warning is aimed at the fact that if this system is not planned and implemented in a consistent way, it can cause extremely counter-productive effects. For example, it can cause problems of competition and responsibility between those who evaluate; the danger of favoritism; financial liability in cases of "malpractice" in evaluation; demoralized personnel, etc. A careful implementation implies involving everybody and not a part of personnel, thinking of non-monetary incentives, carefully defining the nature of a good performance and the criteria of evaluation taking into account the tasks carried out by employees, the profile of the position, the professional profile of each employee, the level of qualification and the abilities and skills required for the post, seniority in the position, the levels of responsibility, etc.

Notwithstanding the government's announcements, the introduction of a system of payment according to performance is already underway. For example, Congress authorized the Defense Department to use this system with 300,000 civilian employees, eventually including 746,000.⁴⁰ Also it authorized higher salaries for around 6,000 senior executives in agencies certified by the OPM and OMB, that show evidence of effective systems for measuring and evaluating performance. In addition, the federal government has proposed the creation of a 500 million dollars fund for the Human Capital Performance Fund that will allow the agencies to distribute additional payments to eight of the ten best employees with better performance. This way, in the next two years, more than half of the civilian employees of the federal government (excluding those in the U.S. Postal Service) are expected to be working under the system of pay based on performance.⁴¹

³⁹ Actually, the question is inappropriate because the comparison between the two types of pickers could be technically correct. The point to be made is the enormous complexity of establishing a system that involves very different types of personnel, with different profiles and types of responsibilities.

⁴⁰ The attempt to implement this system met strong resistance. For example, in the Federal Aviation Administration, which has used a performance based system for many years, the workers consider any attempt to change the system to adjust it to what the government wants to introduce in Defense and Homeland Security, will be resisted as unfair and discriminatory. The armed forces, with 48,000 employees is usually used as a reference for the federal government. In the Department of Defense the launching of the system will be in several stages, that initially include 60,000 of the 300,000 civilian employees who will be incorporated to the system, although the initiation has been postponed and negotiation with the labor unions, who are against it, have not yet begun.

⁴¹ Yet the delays in the implementation of the system leads to the assumption that, according to current and past estimates the first 10,000 will be able to notice differences in salaries only by January 2007, while the rest of government personnel is not expected to notice changes until January 2009 (WP January 27, 2005).

The new system is resisted by many unions of state workers and backed by some institutions, such as the *Coalition for Effective Change*⁴². Apparently the trade unions that oppose it, claim that for the moment it only contains general concepts and not concrete measures. They demand that OPM respond to their concerns, especially the one about third party intervention in labor disputes (WP September 01, 2004). According to the American Federation of Government Employees (AFGE) the system is a threat to the civil service career, job stability and the egalitarian treatment of present and future jobs, because all jobs are considered to be temporary.

In any case, the analysis reveals the enormous difficulties that is involved in introducing a system that, for Latin American state reformers and the experts of multilateral loan organizations, should have been in place many years ago, when the greatly advertised "second generation" state reforms were announced. It is not strange, therefore, that given the technical and political complexities of *pay for performance* as an incentive derived from an objective evaluation of individual capacities and performance, is not yet a reality in the very cradle in which it was born as a policy to be applied *urbi et orbe*.

The Competitive Sourcing and its limits

We have seen that the future of jobs in the federal government is uncertain. The prevailing labor climate, the lack of stimuli, the difficulties to renew the workforce, the reduced influence of the civil bureaucracy in public opinion, among other factors, contribute to discourage a career public service. In addition to all these difficulties it is necessary to mention the threat of the increasing privatization of jobs, which, as indicated above, has become the main source of the growth experienced by "shadow employment".

"Outsourcing" is one of the forms of private contracting of goods and services in what is known in Spanish as "administered competition" (CLAD, 2000). Instead of typical private-private competition, common in the public tenders, outsourcing under this system places private suppliers in competition with providers in government. This mechanism, introduced in 1955 through circular A-76 of the OMB (Office of Management and Budget), has been modified several times over the years, the last time in 2003. The current version describes the relations between the federal government and the private sector, establishing that the Department of Defense should be taken as a model to be followed by the rest of the federal agencies, which until that moment was the exception rather than the rule. According to that circular, commercial activities are not of public interest, and for this reason it is better to carry them out in the market. It demands, therefore, that costs be compared to establish the best option for the taxpayer's pocket. The office in which the competitions are resolved is GAO (General Accountability Office) which may be forced to intervene at the behest of a contractor. For the provision of goods and services the Department of Defense applies title 10 of the U.S. Code, that mandates buying from the private sector whenever the market offers a price below the one offered by the Department itself..⁴³

The express objective of these competitions is to produce greater efficiency in government costs and greater effectiveness in results, starting from the principle that only the comparison of offers from the private and public sectors -at least in those activities that can be considered as typically commercial-

⁴² Established in 1993, this coalition represents more than 600.000 employees, active and past, and is formed by 30 professional and managerial associations that support the goal of linking salaries of federal employees to how well they do their jobs.

⁴³ Contrary to the expectations of many contractors, on August 12 2003 the Federal Court of Appeals of the DC Circuit ruled in favor of a potential contractor (*Information Handling Services v. Defense Automated Printing Service*, 338 F.3d 1024 (D.C. Cir. 2003) "*IHS*"), indicating that he could demand that Defense cease to do certain tasks directly. The decision was based on Section 2462 of the US Code, as the plaintiff was offering a lower price. The ruling had significant effects, because an activity carried out by a public service was forcefully transferred to the private sector, in spite of the official objection that the law does not intend to force the government to hire. (Epstein Becker & Green, P.C. September 11, 2003).

can ensure lower cost for the government and a smaller burden for the taxpayers.⁴⁴ Therefore, it is interesting to analyze what impact its application has had on the situation of the career civil service and which are the desirable limits. This involves considering if so far, as a result of competitions, the expected effects of greater efficiency and performance have been achieved and the institutional capacity of the federal government has been enhanced.

The decision to privatize implies evaluating if it is justified or not to transfer the responsibility of producing a good or providing a service to the private sector, which -if it happens- creates a principal-agent type of relation. A critical question is if the private provision is more effective, efficient and economic than the state one. Another key question, applicable to all contractual relations between the government and private businesses, is who represents the more general public interests of a society. Unless there are cast-iron rules against corruption, and even if all the involved parts are immune to the temptation, the natural result of the link is an alliance between private suppliers and government employees, at the taxpayers expense (Donahue, 1989).

So far we have seen that the growth of the federal government in the United States took place, fundamentally, by the contracting of private suppliers of goods and services by a multitude of public agencies, especially in the areas of homeland security and defense. In this section I intend to analyze some of the mechanisms used both by the government and the companies to produce this result and, on the other hand, to discuss which is the advisable scale of this real "private state" that has appeared in the name of the greater efficiency that the private provision supposedly has, compared to the government provision. I will focus particularly on defense, precisely because it was chosen by the federal government as a model for all the public sector.

National defense is one of the government functions which most uses contracts with private suppliers. In 28 years (from 1972 to 2000), the proportion of jobs paid by contractors in relation to total defense jobs, climbed from 36% to 50%. Although the work force in this sector continues to be very great (more than 2 million positions), "shadow employment" today is substantially higher. Of the dozens of the great firms that have military contracts, the most important are Lockheed Martin, Boeing and Northrop Grumman. In 2003, these three companies had contracts for 50 billion dollars, i.e., almost a quarter of the 209 billion that the Pentagon awarded that year.⁴⁵

One of the direct consequences of the behavior of the "purchasing state" in its links with external contractors, has been its impact on the regional economy around Washington D.C. and the Pentagon. In 1993, federal procurement in that region experienced its largest growth since the 1980s, with the creation of thousands of jobs (82.000) and an economic growth rate of 4,1% for North Virginia, that compares favorably with the national average of 3,1%. The federal government spent US\$ 42.2 billion in goods and services in the Washington area during fiscal 2003, 16.9% more than in 2002, the highest percentage of growth since the buildup of defense costs initiated by Reagan in 1985.

⁴⁴ The explicit objective could hide other ends, more in line with the analysis being made. For example, the *Federal Activities Inventory Act* (FAIR Act, 1998) established the annual obligation of presenting a list of activities of each sector and agency of the federal government to the OMB, every June 30. The commercial activities (not the strictly government ones) that are carried out in the agencies are classified in the list. Interested parties have 30 days from when it is published in the *Federal Register* to appeal, or not, the inclusion of these activities. Once they are over they are automatically included in a potential process of *competitive sourcing*. Later, each agency will decide whether to carry on or not, and when. The OMB intends to centralize this process in a separate organization, obviously with the participation of the agency to "productivize" After costs are analyzed and the bids are presented the tender is awarded to a contractor, or to the *Most Effective Organization* (MEO), which is the government agency. The system is quite complex because after five years it is possible to compete once more with new bids. There are also rules related to the employment of ex-workers in the private companies and startup companies created by ex-workers. What is clear is that flexibilization and downsizing are usually the first steps towards the transfer of management to the private sector.

⁴⁵ According to Defense specialist, William Hartung, lesser known firms in the areas of information technology and engineering, such as Computer Sciences Corporation, BDM International o Science Applications International Corporation appeared as recent suppliers of the State Department, with annual revenues of billions of dollars in the defense industry.

According to popular views, the purpose of a defense contract would be to produce sophisticated armament and equipment, like bombers, missiles or tanks, but today the most common contracts are for services and not for goods.⁴⁶ A growing legion of employees under such contracts installs, maintains, operates and Integrates military equipment. Likewise research and development activities are increasingly outsourced, as in the case of the Navy Department, where the technical centers of the Navy contract more than half of scientific, testing and evaluation services externally, as well as those of food supplies, base maintenance, security and military training.⁴⁷

In economic theory, it is competition and not privatization per se that is expected to produce savings in costs and improvements in performance. The key is competition, as private contractors are profit-seeking companies whose main loyalty is to the shareholders. Without competition and in absence of close supervision, these corporations are encouraged to raise prices and to hide information about their products and services. The economists in the defense area suggest that competition should generate efficiency, but only under certain conditions: at least four or more companies competing for a certain work, competitive conditions maintained over time, clear specifications by the purchasing government in the requirements of the job and its results, and active and sustained monitoring (Markusen, 2003).

But the conditions established by the theory are rarely satisfied in the real world of military contracts. Most contracts open to competitive bidding have less than three offers. Once they are signed, the contracts last for long periods, isolating the companies from the pressures of continuous competition. The very process of bidding can be distorted by firms that present low quotations, knowing full well that later on they will be able to negotiate additional increases. And given the processes of concentration of the industry and the reduction of the number of major contractors, the collusion between companies becomes a recurrent problem.

Another mechanism to artificially inflate the numbers in the economic proposals is through the manipulation of costs. Many of the Pentagon contracts are of the "cost-plus" variety, which means that the firms recover their costs and part of their overhead, profits as a percentage of the costs are guaranteed and there are adjustments for inflation. However, the evidence suggests that although earnings are relatively small, the companies find ways to increase their profit margin using all kinds of questionable means, particularly through higher costs demanded once the contract is in force, less delivery of goods or provision of services or the exaggeration of the real production costs (Markusen, 2003).⁴⁸

Although they are less visible than the Congressional lobbies and the company groups, the defense contractors use their superior technical expertise to sell new highly risky and expensive projects to the Pentagon procurement managers and to the higher military leaders. Their involvement in the advisory committees of the Pentagon is very useful to exert their influence, simultaneously reducing their public exposure. They often use publications and public announcements urging the privatization of projects and functions, as far as possible through direct adjudication, to avoid competing with government employees. At the same time, the rate and volumes of outsourcing, especially in the field of research

⁴⁶ Between 1984 and 1996, three of every four posts created by contractors were in services, which implied a growth of over 50% in that period..

⁴⁷ The Pentagon's shopping list has changed: in 1984 two thirds of contracts involved goods, in 1990 goods and services were even, in 2003 services represented 56% of the total including strategic, basic and sophisticated tasks, and even advisory services on contracting.

⁴⁸ For example, Halliburton's subsidiary, Kellogg Brown & Root, was awarded a multimillionaire contract for 10 years to provide logistical support to U.S.troops stationed abroad. The contract guarantees that the firm will receive 1% of costs as earnings. Furthermore, KBR may receive as an additional bonus up to 2% of the total contract. The company has a long record of demanding additional costs in Kosovo, and its performance in Iraq has been poor. KBR admitted to having overcharged the government by 61 million dollars in fuel and its own internal auditing unit in Iraqi operations revealed serious flaws, including lack of control of costs of subcontractors and massive losses in supplies and equipment according to the Wall Street Journal.

and development, have left the government practically unable to evaluate and supervise the proposals of the contractors.

With bigger or smaller differences, these practices have been characteristic of the close and often unholy links between the government and the private sector in the area of defense, which go back at least to the onset of the Cold War and the various conflicts the United States has been in since the end of World War II. They are the same practices that President Eisenhower denounced in his farewell message when he warned about the danger of undue influence on the government by the "military-industrial complex".⁴⁹ Even so, this abuse of dominant positions by private contractors, exacerbated by the growing integration and concentration of firms after the dismantling of the Soviet Union, could be even more convenient than depending on the production of goods and services exclusively on the public sector, given the inefficiency and low performance attributed to the state management. Private contracts would be a lesser evil and the justification of outsourcing would be backed by arguments similar to those that, more recently, were used to privatize public enterprises in Latin America. The test on the convenience of either kind of supplier would reside in their relative efficiency and effectiveness.

The evidence, in this sense, is mixed and contradictory. For example, the OMB recently reported that of all the work contracted by means of public-private competition, 89% was done by the public employees in a more effective way and with lower costs than those of private competitors. Obviously, this was taken by the Assistant Manager of the OMB, Clay Johnson III, to justify the viewpoint of the Bush Administration regarding the value of competition and not to reconsider the intention of transferring jobs to the private sector (WP May 26, 2004).

An isolated experience helps to illustrate the contrasts present in an objective comparison. In 2002, the federal government created the Transportation Security Administration (TSA) because in the aftermath of 9/11, Congress believed that the private sector had performed very badly in the matter of checking luggage and people in airports, that something as important as the security in the air had to be entrusted to a government agency. The leaders of both parties were quite emphatic about the failures of the private sector and the need to eliminate them. According to Hamilton (2002) the notion of what is better provided by the government and what can be safely and adequately provided by the private sector, seems to be absent in the current obsession to massively transfer jobs to the private sector. The author highlighted the irony that in the same week in which President Bush announced the plans of his administration to allow the private sector to compete for about 850,000 government positions -almost half of the civil workforce of the federal government-, it was also announced that the brand-new TSA had achieved its almost impossible goal on time, of filling all the control posts of airport security in a year⁵⁰

The few existing evaluations do not focus their attention on competition between private and public bidders, i.e., on situations in which a government agency presents a technical and economic proposal in competition with a private organization, instead of competition between private contractors, nor on the 50% of the purchases in the Department of Defense that are simply awarded to a contractor with no previous tender or competitive bidding.⁵¹

⁴⁹ Eisenhower said: "In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex." Farewell Address. January 17 1961. Senator Everett Dirksen also referred to this in these terms: "A billion here, a billion there, sooner or later it adds up to real money."

⁵⁰ The announcement of competitions for government posts -a measure that most federal employees took as a vote of zero-confidence of the Administration for them- was considered sufficiently important to be announced by the President. Instead, the announcement that the TSA had managed to recruit, employ and train 44.000 persons throughout the year was not given the same importance, even when this herculean effort meant the security of the airborne public. This new agency had to evaluate more than 1.4 million applications, employ around 3.300 persons in each week and provide 40 hours of training and 60 hours of on-the-job training for each one.

⁵¹ In 1996, one of the lobbies of private contractors, the Defense Science Board Task Force on Outsourcing and Privatization, published some studies which claimed that 10 to 30 billion dollars could be saved through the privatization of defense support and maintenance services. It is unnecessary to add that the evidence offered to estimate these multibillion

Some have calculated that Defense saves 20% to 30% by using competitive bidding between private contractors, but those figures are based on estimates of savings in the initial stage of the bidding. In other words, they only consider the promise of savings, not those effectively obtained over time, which means it is a poor indicator, since overcharging is very common and the contracts may be renegotiated or amended after being awarded. The few studies available on more long-term effects, carried out mainly by the Center for Naval Analysis (CNA) -a research and development center financed by federal funds and GAO- offer mixed results.⁵²

The CNA insists that public-private competition generates proposals and plans which, if implemented, would save money for the Pentagon. But their analyses are emphatic pointing out that "competition is what produces savings and not outsourcing itself". Their simulations suggest that 65% of savings should, in theory, be achieved simply by the exercise of competition, even if no private firm won a contract.

The GAO is even less convinced about the potential savings in costs. The agency investigated some of the cost estimates of the Pentagon and concluded that they were exaggerated because Defense did not fully estimate neither the costs of investments associated with the organization of these competitions nor the separation costs of personnel, which are usually linked to implementation. Defense assumed that the cost of managing the competitive process would only be 2000 dollars per position, but in fact the costs ranged between 7000 and 9000 dollars. In a later review of the claim presented by the Pentagon, in the sense that in 1999 it had saved 290 million dollars through public-private competition, GAO reached the conclusion that it was difficult to determine just how much had been saved. Once again, most of the problem resides in that the Department of Defense does not review its savings estimates nor adjusts its data once the contracts begin to be executed.

The GAO also points out that possible savings from outsourcing are mainly due to cuts in personnel costs. It is impossible to know if these cuts normally take the form of reductions in wages and benefits, of the use of temporary workers, of downsizing of full-time employees or some combination of these factors, since the private companies refuse to share information on personnel. The important role that savings have in labor costs in the outsourcing contracts that the Pentagon awards should capture the attention of policy-makers in this field. It is contradictory that this agency does not supervise salaries and working conditions of its "shadow employees". If private administrators of jails are required to disclose employment data to the evaluators, why are not Pentagon contractors required to do the same?

In sum, there are no definite conclusions about the efficiency of military outsourcing and little is known about savings in wage costs. In fact, no study has included the cost of a competent supervision of the estimates of outsourcing savings nor observed performance in terms of effects, in a systematic manner.

Regulation and control of outsourcing of goods and services

Given the extraordinary sums that are involved in defense contracts, one could well assume that Congress and the Pentagon would carefully control costs and results in terms of performance. Yet Pentagon records are elementary and, in most cases, not very transparent for the citizens⁵³ Even

savings is totally insufficient. The panel that announced the first study was presided by the CEO of Military contractor BDM International.

⁵² A study on surface ships found that the compliance of delivery schedules was more or less alike, whether the work was done by a private shipyard or a public one. Another study on maintenance work showed that in a span of two years, the performance of contractors was worse than the Navy team, although, on the whole contractors performed better than the Navy.

⁵³ Pentagon records are very poor: In 2003, 35.000 millions in contracts had no identification of the parent company that had been awarded the tender, which led to discrepancies between Pentagon records and those of the companies.

GAO, the investigative arm of Congress, finds it hard to interpret the information provided by the Pentagon.⁵⁴ Beyond the concerns about efficiency and performance, the increasing dependency of the national defense on profit-seeking companies in the area, creates deeper political-institutional problems, such as the capture of public decision-making by private military interests.

Through lobbying, advertising and generous contributions to political campaigns,⁵⁵ the private sector with links to defense offers weapons systems and defense initiatives that provide very lucrative contracts.⁵⁶ In the 1990s, these groups successfully resisted important measures to control the exports of conventional arms and, more recently, the aerospace industry led by Lockheed Martin, lobbied strongly for the entry of Poland, Hungary and the Czech Republic to NATO, expecting these countries to update their military equipment by means of expensive acquisitions. In general, the weight of the defense industry in Congress makes it difficult to channel resources towards peace missions, negotiated agreements or promotion of economic development instead of waging war at a global level.

The war of Iraq once again highlighted the difficulties of supervising government contractors, although in this case all the limits have been violated, both in the volume of activity of the contractors and in the lack of disposition (or straightforward complicity) of those who should supervise them. Of the 120.000 million dollars in services contracts planned for this year, 98% (in defense) and practically the 100% (in the rest) will be awarded directly, without public competition, causing an important transfer of income from the taxpayers to the contractors. There are also attempts to increase the discretionary power of the agencies, so that they can hire political allies.

In this sense the evidence is overwhelming. Nothing better than a conservative, like the head of the Ways and Means Committee of the House of Representatives, to reveal these shady deals. In his own words, with the level of spending reached during Bush's first term, there are more opportunities for fraud and abuse. The very size of the federal government makes it difficult to monitor fraud. In 2002 the Federal Aviation Administration alone spent a total of 5,4 million dollars in inappropriate purchases with credit cards, and pork-barrel projects proliferated, with specific earmarked resources. The OMB (Office of Management and Budget) considered that, in that year the government lost 35 billion dollars in "improper payments", including duplicate payments, erroneous calculations, inadmissible claims and fraud.

An extensive report of the Center for Public Integrity contains a great amount of data that vouch for, with precise numbers, the degree of existing lack of control. From the intervention in Iraq, the forms of direct hiring of the Pentagon have reached new heights. Between October 1997 and September 2003, 2.2 million contracts for a total of 900 billion dollars were signed. If only the bigger ones (of over 100 million) are considered we can conclude that: (1) half of the total budget was executed by private contractors, a constant figure in the six years, including when total spending rose due to the conflicts in Afghanistan and Iraq; (2) 36% of contracts were made in open competition, 4% in open competition with only one offer, 44% was not by open competition (mainly direct hiring), 7% were done with other procedures (mainly small contracts) and 8% did not provide any information whatsoever about the

⁵⁴ It is interesting to note that in 2004, the traditional General Accounting Office (GAO) was renamed General Accountability Office, keeping its initials. This change symbolizes the new significance that Congress wishes to give to this external auditing body, by stressing the accountability of the agencies and their workers, rather than a simple accounting control.

⁵⁵ The names of the enterprises that have been most generous with the Bush Administration in donations for the different Republican campaigns coincide with those that have obtained the best contracts for the reconstruction of Afghanistan and Iraq. This is the conclusion of a report written by The Center for Public Integrity (<http://www.publicintegrity.org/wow/>) after six months of research. Some of the firms that are in the eye of the storm over political cronyism in contracts justify the adjudications in their professionalism. The most favored firm, Halliburton, happens to belong to Vicepresident Cheney.

⁵⁶ Since the end of the Cold War, private military contractors have formed a powerful interest group to protect obsolete armament systems. For example, during the Reagan years, the group imposed its influence on a very active and scientifically well-informed opposition to the B-1 bomber, and to the Star Wars, two of the most expensive post-war initiatives.

procedure⁵⁷; (3) of all the contractors (tens of thousands), the largest 737 obtained 80% of the funds, the 50 biggest ones more than half and the biggest 10, 38%; (4) the biggest ones were Lockheed Martin (94 billion in 6 years), Boeing (82 billion), Raytheon (almost 40 billion), Northrop Grumman (34 billion) and General Dynamics (34 billion). In fact they all obtained larger sums through joint ventures with other companies.

The report provides many other details whose consideration would exceed the scope reserved for this point. But I want to highlight the conclusion that political influence and lobbies are vital for obtaining contracts. Altogether, the 737 largest companies contributed 214 million dollars to the campaigns of the political parties, of which two thirds went to Republicans. Half of the contractors made contributions, but those that did paid a total of 1,900 million. The list of politicians who received greater amounts includes members of the expenditure subcommittees of the Department of Defense, both in the Senate and in the House of Representatives.

Probably, the greatest proof of the lack of control in defense is provided by the behavior of the contractors in their task of supporting combat operations of the American government. The Extra-Territorial Military Jurisdiction Act of November, 2000 allows the prosecution of criminal acts committed by defense contractors who accompany military personnel abroad. In 2004, three generals who investigated the abuses committed in the Abu Ghraib jail, in Iraq, initiated actions in the Justice Department against 6 contractors used by CACI Inc. International, of Arlington and Titan Corp. of San Diego, recommending that they be indicted for taking part in the abuse of prisoners or for not reporting the incidents. Yet, the same report that informed this news raised doubts about the potential success of such efforts, indicating that the employees of a contractor that was not under contract with the Department of Defense, cannot be subject to this law. The CACI contractor that provided personnel for interrogations in Abu Ghraib was handled by the State Department (Washington Post, 27 August 2004).⁵⁸

In addition to civilian personnel of the private contractors, 42 soldiers also were indicted for the same reason. Civil contractors are typically required by the military to design and to maintain computer systems or to provide logistic and cleaning services and not to interrogate prisoners of war. But due to the lack of training of the interrogators and military interpreters, the senior officers alleged that the only option was to use the private ones. "To do the things that are necessary in Iraq and Afghanistan, we needed to have the option of using contractors. The question is simple: or we used contractors or we do not get the intelligence" indicated General Mayor George Fay, in charge of the panel of generals that handled the case.

Some preliminary conclusions

Since George W. Bush became President of the United States, the military budget has grown from 300 to 400 billion dollars, not counting the 200 billion in extraordinary expenses for Iraq and Afghanistan and the additional budget that he has asked Congress for fiscal year 2006 to finance these operations. His administration has made every effort to transfer more government work to private contractors by means of direct purchases, displacing public workers without the opportunity of competing. The unchecked expansion this provokes in public spending in defense appears to be the result of a combination of ideology and political calculation, reinforced by the "political contributions" of the lobbies in the defense area and by the speedy lubrication of the revolving doors which link

⁵⁷ The less competitive categories were: guided missiles (96%), fire control equipment (87%), turbines, machinery and components (85%). At the other end of the spectrum, the most open and competitive categories were: energy, fuel and lubricants (81%), and medical and dental supplements (80%).

⁵⁸ The General Services Administration (GSA) of the U.S., that monitors many of the large federal contracts, established that this contract with CACI was an IT type (Information Technology), and constituted a violation of contract regulations that do not include interrogation services under an IT contract. The GSA also determined that Lockheed Martin used an IT contract to provide these services in the base in Guantanamo Bay, which was also not included in these contracts. None of these companies was suspended or banned from participating in federal government tenders (WP, December 13 2004).

Pentagon interests with those of the private contractors. On the other hand, whether due to incapacity or deliberate omission, all control mechanisms on outsourcing have been relaxed, both in private tenders as in public-private contracts, which brings back memories of the most notorious practices of the old spoils system.

The privatization of security and defense in the United States places in jeopardy the possibility of citizens to exercise real democratic control on the evolution and use of military force. Almost inevitably, these processes modify the distribution of forces in the control of violence, both within the governments as well as between public sector and private actors (Avant, 2005). In that country, the private production of goods and services has reinforced the power of the executive branch, reduced Congressional oversight and diminished the transparency in public management. The process is cumulative, as an increasing number of private suppliers are incorporated to security and defense, with which their companies gain greater influence on foreign and military policy.

What happens in these areas may be generalized for all the relations between the government and the private sector, as career civil servants are replaced by employees of private contractors in practically all the sectors of public administration. It is not only about the relative size of the workforce in both sectors but, mainly, of the continuous loss of incentives to start or to continue a career in the government civil service.

These trends, as we have seen, have been promoted by the orientation of the current administration, the climate of insecurity, the vicissitudes of a war that divides public opinion and the fundamentalist and ultraconservative character of the policies followed by the government. Even the language seems to have adjusted to this general climate. Janet and Bob Denhardt (2002), observe that terms like "democracy", "citizen" and "pride" no longer prevail in the speeches, and have been replaced by "market", "competition" and "customers". And they add: "Public servants do not provide a service to the customer; they deliver democracy."

Finally, these preliminary conclusions on the recent experience of the American federal government should help to shed light on the processes of transformation in state-society relations in Latin America and the reform strategies in their public administrations, adopted by the countries. Given the differences in size, composition, culture and roles of private and public actors in both contexts, it would not be a comparative exercise. What interests me, and gives meaning to this paper, is the possibility of measuring the gap between the models of public management that are promoted from the North to be adopted in our countries, and their effective application in the social and institutional context where they originated. The following observations are a product of this contrast:

- While the Latin American governments quickly privatized their public enterprises, the American federal government, that had almost no state enterprises, did the same thing with public employment, advancing on an area which, very likely, will be included in recommendations of their experts in coming years. At least, the processes of flexibilization in public employment seem to give support to this hypothesis.
- While the theory and practice of the New Public Management saturates the programs of state reform in the region, the federal government has still not found the way to stimulate the recruitment of the potentially better candidates into the civil service, to evaluate the personnel according to performance, to promote according to merit or to reward according to performance. Neither has it been able to improve the social standing of its public administration, just as in most of Latin America.
- While transparency and accountability occupy privileged positions in the reforming discourse of missions and recommendations of international experts, in the United States the political practices of company lobbies and private contractors generate unheard of opportunities of illegitimate and

obscure business deals that profoundly modify the relations of power and the capacity of citizen oversight of public management.

- While the downsizing of the public sector and of government spending in the countries of the continent turned into the dogma of state reform, and the budget surpluses became the guiding principle of debt repayment, the American government has watched its true size grow, with a multimillionaire shadow workforce and trillionaire budget that has no limits or resources to execute it, except through deficit spending and borrowing.
- While planning, monitoring and management control try to extend the time dimension of public management in our countries -incorporating the future and the past to the everyday administration-, the powerful audit apparatus, checks and balances and accountability of the United States cannot put a stop to the flagrant violations of rules on purchases and contracts that characterizes the procurement practices, at least in defense.

The contrast should warn our reformers about the real prospects of success of those prescriptions that foreign academics and experts gracefully offer when they are abroad, but are not applied "at home". For that reason, before adopting them, one must ask: how are they doing at home?

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Background

Certified Public Accountant and pH in Economic Sciences, University of Buenos Aires, Master in Administration Public and pH in Political Science, University of California, Berkeley, he has specialized in public administration and policies. His professional background includes activities in research, education, direction, government, consultancy and technical assistance.

Currently, he is Director of the Master's Program in Public Administration of School of Economic Sciences (University of Buenos Aires), Senior Researcher of CONICET, President of the Inter American for Network Public Administration Education (INPAE) and professor of graduate courses in several Argentine universities.

He has been Undersecretary of Research and Administrative Reform in Argentina and presidential adviser on state reform, President of the Argentine Society of Political Analysis (member of the International Political Science Association), Director of the Center for Research in Public Administration (Di Tella Institute), of Center of Studies on the State and Society (CEDES) and of the Center for Development and Assistance in Technology for the Public Organization (TOP). As consultant, he has worked in numerous international organizations (O.A.S., FAO, World Bank, I.A.D.B., CLAD, WHO, IICA), foreign governments, companies and institutions in his country. He is the author of several books and more than 100 articles in his specialty. He has given courses and conferences in academic and professional institutions of Argentina, Latin America, Europe, Asia and the U.S. He has been awarded several prizes and acknowledgements (Peter Odegard Award, the Argentine Association of Fiscal Law Prize, CLAD essay competitions, and the International Public Administration Award of ASPA) and has been a fellow of numerous institutions (Ford Foundation, United Nations, Tinker Foundation, Rockefeller Foundation, Guggenheim Foundation). His mail address is: CEDES, Sanchez de Bustamante 27, 1173 Buenos Aires, Argentina. Telefax: (4865 1704) and rotating lines. E-mail: oszlak@cedes.org

Abstract

Perhaps it is not surprising, nor remarkable, to affirm that the wide gap between the progress achieved in the academic output of the "new public management" and the everyday practices of the American federal administration, remains essentially unchanged. In spite of optimistic announcements in the inaugurations of the country's last two presidencies -"Reinventing Government" (Clinton) and the "President's Management Agenda" (Bush) - the managerial reforms in their respective administrations (specially in the current one) were only skin-deep and, in certain areas, they actually slackened. What is perhaps surprising, and even a novelty, is to actually corroborate the magnitude and nature of that gap in the analysis carried out in the course of this investigation, and made evident by the incompetent management of the emergency created by Hurricane Katrina.

This paper examines four aspects of American public management: 1) the true size and role of the federal government; 2) the problems that affect its civil service system; 3) its purchasing power and

links with private contractors; and 4) the difficulties of exerting adequate control on the provision of goods and services through outsourcing. These four areas have some things in common with the contents and basic orientation of the current presidential agenda: a) an active but limited government, that empowers society; b) a government oriented to the citizen and not to the bureaucracy; c) a government based on the market and competition; and d) a government that focuses on results, not processes. Far from following these principles, our analysis shows the wide gap between the tenets of the new public management and their practical implementation. Out of these contrasts, based on experience, this paper extracts some useful lessons to assess the scope and potential of the recommendations that foreign academics and specialists offer to reform the public sector in Latin America.