

# 1 Introduction: Issues and Context\*

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## Abstract

*The present volume combines current approaches in the American social sciences with European traditions of thought in order to assess the impact of the still ongoing differentiation of government and its growing interdependence with nongovernmental public and private bodies. It develops conceptual frameworks which help to understand the structured complexity of relationships within the public sector as a device to redefine situations for the actors concerned. The interdisciplinary framework gives greater insight into the conditions of functioning in the public sector than traditional theories in various disciplines. By analyzing characteristic patterns of coordination as institutional arrangements, a way has been opened to the search for institutional design. Taking into account the constraints of rational decision making, standards for institutional design should give more prominence to the possibilities of feedback and learning, i.e. to the social processes of evaluation rather than to the rational processes of calculation.*

## 1.1 The Scope of the Problem

The *subject* of this volume is an attempt to explain the functioning of what is conventionally called the public sector. Political theory, which traditionally focused on the state or on government, is now challenged by economic and sociological considerations broadening the scope of politics and policies into what was conventionally considered as private. This shift in academic emphasis corresponds to a growing interdependence of polity and economy, and the involvement of both with the everyday life of most people. The German distinction of *Staat* and *Gesellschaft* allows one to conceptualize this growing interdependence as the “*Verstaatlichung der Gesellschaft*” (politization of society) and the “*Vergesellschaftung des Staates*”

\* Parts of the concluding chapter of the previous edition have been incorporated into this new introductory chapter. I am indebted to my co-authors of that chapter, Giandomenico Majone (in section 1.3) and Vincent Ostrom (in section 1.4), for their contributions.

(socialization of the state) (Habermas 1962). The English terms “welfare state” and “mixed economy” refer to similar issues, but they have not been explored as deeply in political theory. This has led some to argue as Sharkansky (1979) has done about a “withering of the state”.

Different from the sector of private economy, where guidance and control of outcomes are connected systematically by market mechanisms and profits or losses, the public sector is lacking such comparably elegant feedback mechanisms. This, however, must not lead to the conclusion that problems of guidance would here be insolvable and that outcomes in the public sector would necessarily not be evaluable. Guidance, control, and evaluation do also exist in the public sector. Normally, however, they will not occur simultaneously in different policy areas and they demand a cooperation of different mechanisms and forms of communication that have not yet been sufficiently clarified.

In political theory the “state” or the “government” is considered to be the steering center of a society. Classical political theories were already aware, in criticizing the absolutistic state, that the complexity of modern societies does not allow the unlimited dominance of a political center without seriously damaging their productive and adaptive capacities. The differentiation of a self-contained state and a market-regulated economy was the institutional answer of the 19th century to the problems of growth and order, but the relationship between them was always contested by the ideological mainstreams. To understand the problems of the public sector, however, it is not sufficient to deal with the relationship of economy and polity. We must incorporate a third aspect of modern societies that has been emphasized in political as well as in economic theory, a domain conventionally called the social services. They may be regarded as the organizational outcome of the welfare state, and their size as well as their impact upon the everyday life of most citizens has grown substantially during the last decades. We therefore have to ask how, to what extent, and under which conditions the state or the government is able to influence what happens with the provision of goods and services, taking into account the self-regulating powers of the systems concerned.

Thus the subject of our inquiry is related to (1) a better understanding of the problems of “governability” in modern welfare states, i.e. – in terms of the present approach – the “steerability” of public sectors; and (2) a better understanding of public sector performance which seems to be inextricably linked to the problem of the coordination of a multiplicity of *organized* actors within the public sector. Theories that have emerged in various disciplines will be screened for their possible contribution to a more comprehensive approach to the reconstruction of coordination problems in the perspective of guidance, control, and feedback.

In analyzing the public sector we could no longer think about a centralized state implementing some policy, rather we recognized a highly differentiated set of sectors, within which different forms of coordination and a redundancy of control mechanisms are operating. This is the basic perspective which became common to all members of the ZiF-Group and is exposed as well as analyzed in the present volume. It is obviously impossible to attain the coherence of a monograph when a group of more than twenty people from various disciplines is working together. We assume, however, that this volume has a line of argument that helps to clarify what

the public sector is about; how its functioning can be explained; and how coordination and control among the actors involved may operate for more or less satisfactory results. This line of argument will be sketched in section 1.2. Previously I wish to broaden the scope of the problem into the realm of politics.

## Critics of the State

Today the state is under attack. Its potentialities are contested from both sides of the political spectrum and great words like “crisis”, “bureaucracy”, “loss of legitimation”, “privatization”, etc. flow easily from the lips of the protagonists. Critics “from the Right” assume that governments have taken over too many tasks in transferring them to the public sector, and that this accounts for unemployment, the current fiscal crisis, and more generally the alleged crisis of governability in modern states (cf. e.g. Dettling 1980, Murray 1984). The arguments referring to the latter are not always explicit, but there is always a charge against “bureaucratization”, even though the subject remains rather vague: the administration itself, the conditions of everyday life, and of society at large (cf. Grunow chapter 5). Critics from the Right consequently demand a reduction of the public sector, “privatization” of public tasks, and a concomitant alleviation of the tax burden. “Privatization” is understood mainly as a substitution for publicly planned provision of services by market provision. There should be “more private initiative” that is assumed to be strangled by the public tax burden as well as by the growing impact of public regulations. Governments that concentrate on their “genuine tasks” of maintaining order and security are, however, assumed to work efficiently.

The critics from the Left strikingly resemble those from the Right. They also — and even more vigorously — claim that there is a fiscal and a political crisis in Western societies, but their explanation differs. Allegedly the crisis is due to the antagonistic character of capitalist societies, to the unstable relationship between economy and polity (e.g. Gough 1979, Offe 1984). The pretention of the state to be a *pouvoir neutre* is contested as well as its power to balance in the long run the opposite claims of various social groups. In trying to do so, they assume, democratic governments will necessarily engage more and more in new tasks and interventions and eventually be overloaded both in terms of fiscal demands and steering capacities. And when the illusion of democratic problem solving becomes apparent, they expect a loss of public authority, a gap of legitimacy that will lead to a deeper crisis in society. Within that broad view one may distinguish a traditional leftist “orthodoxy” that continues its claim for a stronger state and for weakening the “anarchic” forces of the market. But the more active movement today seems to be directed *against both* the highly organized economy of big business and the bureaucratized state. The “alternatives” argue neither for markets nor for the state, but for cooperation and regulations within small groups, for a “new solidarity” (Janowitz 1976, Hoefnagels 1979). The kind of progress that has been linked to organizational growth (or, as we conceive it, to a lengthening of chains of action) is assumed here to become essentially counterproductive and therefore to lead to a crisis of both, the economy and the polity.

Even reformist thinkers begin to question traditional assumptions about political potentialities for problem solving. Instead of generalizing forms of political intervention, they postulate “a growing intelligence and precision of the state’s stake of resources” and a “more intense and differentiated interaction among public administration, business, and trade unions” (transl. from Scharpf 1979: 25). There is growing acknowledgement that the present forms of governmental intervention are reaching limits of effectiveness. Besides the scarcity of fiscal means (that should in fact surprise no one and was foreseen already by Schumpeter 1918), there is a new development that challenges the continental conception of the state and heavy reliance upon the law: the multiplication of political interventions as well as growing concern about equality and the protection of citizens against the alleged arbitrariness of public administration has led to what is called an “inflation of laws” and the “juridification” (*Verrechtlichung*) of society.<sup>1</sup> As nobody is able to gain a general overview, there exists a growing likelihood of conflicting norms and of a new form of administrative discretion, i.e. in deciding which norm should be applied in a concrete case. In many domains only a part of the norms in force are factually applied and its application controlled. Moreover, at least in the federal system of West Germany, a growing immobility results from the fiscal interdependencies of central, regional, and local government. There is, therefore, a growing concern about the “bureaucratic costs of the legal and social state” (Wahl 1980). Some compare the modern state with a dinosaur that has grown too big and is therefore condemned to extinction. At least we have to acknowledge a *growing entropy* in what is called the public sector; the amount of energy that is needed for coordination within and between public organizations is growing faster than their output in services to society.

## The Market Versus the State Debate is Outdated

The mainstream of the critics, at least in the Anglo-Saxon World, concludes that state interventions have grown too far and that deregulation, tax alleviations, as well as privatization would be the appropriate answer to the existing situation. This position, however, only iterates the ideological battles of the 19th and the first half of the 20th century. Even when, as in the beginnings of the Reagan and Thatcher governments, there are strong attempts to cut the public budget and to restrain political interventions, one cannot acknowledge the result of a substantial decline in the public sector.<sup>2</sup> We have now enough experience with modernization to understand that the market versus the state controversy is flawed and leads to ill-defined problems. *The success of Western societies results from their ability to develop both, a dynamic market-driven economy and a strong government regulated and regulating by law. The public sector is the institutional outcome of the interaction of both forces with the realm of social forces as household and family, social movements, charities, and other forms of free association.* Obviously government or the state has a focal role in that historical game which is nowadays called the emergence of the welfare state. But upon closer inspection we find not “the state”

when we look at what is conventionally called the welfare state but a system of social services which in most countries is only partially under the rule of the public service and where the boundaries between public and private are blurred by the *combined* action of public and private actors. The same is true for other segments of the public sector such as the traffic system, the promotion of science, telecommunication, or the protection of the environment. No definite progress could be made by a separation of the public and the private sphere as it was asked for in the 19th century. We have to live with the fact of a growing *differentiation and interaction* of the various spheres of society.

This statement obviously does not mean that everything is going well with the actual institutional forms in the public sector. But it shows that our *theories* about the public sector do not account enough for its complexities and problems. The division of labor and the fragmentation of power as basic features of modern societies form the starting point for our inquiry. As the traditional differentiations of economic and political theory such as state/society, public/private, or polity/economy have lost their accepted meaning because they are far too simple to explain what goes on in organized public life, we aim at a more complex and abstract approach. This should enable us to deal with issues of public policy in terms of an interaction between public and private actors or — in more sophisticated terms — an interpenetration of political, economic, and social systems.

## A First Sketch of the Public Sector

The growing public sector has, therefore, to be conceived as a multibureaucratic structure rather than a megabureaucratic structure. A multiplicity of organized bodies are interacting within more or less loosely coupled networks, and their interactions are only partially (and to a variable extent) regulated by law. This multiplicity of organizations is built upon structures that are of a formally public or formally private status. Legislatures, for example, are formally public; but in many societies political parties as well as associations are formally private. Yet, they both assume essential roles in organizing the processes of government. To conceive formally private organizations as belonging to “the public sector” means that their performance depends upon the exercise of governmental prerogatives and, therefore, implicate some kind of public interest. *The public sector cannot be conceived as a boundary-maintaining system.* Rather, it is an integrating arrangement for multifarious and multidimensional areas of society that are considered in the common perspective of being influenced by associated governmental activities. In a more substantive perspective one should speak rather about public sectors in the plural in order to state the problem correctly. It consists mainly of a variety of interorganizational networks that are focused on specific policy areas.

If the public sector cannot be conceived as a single “system” in order to account for the high variability of contested issues, types of organization, patterns of interaction, and modes of coordination, how then is the basic problem to be conceived that allows for a unifying approach? The basic idea with which this

volume starts is the problem of coordination of a multiplicity of actors. These (individual or organized) actors are conveyed as having a potential for self-regulation, as having resources and interests, as being able to act, to know, and to learn in light of performance within their social environment. All these features are given as *variables*, i.e. there is no equality assumed among the actors, their relative strengths and potentials are matters of fact. It is, however, assumed that every actor has potentials to react to the behavior of other actors so that agreement or disagreement, cooperation or conflict, affects the costs of particular actions.

## The Coordination Problems as Focus

Coordination of a multiplicity of actors cannot mean that *all* the actions of these diverse actors are coordinated by a single central steering mechanism. Such a utopian approach neglects the need for self-regulation within multiple actors and underestimates, therefore, the costs of conformity and the losses of adaptive potentials present within the various actors and their interorganizational networks. Hierarchic coordination by a center is, of course, an important mode of coordination; but it is a specific form of coordination that never relates to all the actions of an actor. We therefore conceive the coordination problem as related to actions and not to actors. Coordination happens, insofar as different actions of various actors become linked to constitute *chains of actions*.

Considering the multifarious and multidimensional structure of relationships within the public sector, it becomes obvious that most actors are engaged in a multiplicity of chains of action and that there is a constant striving on the part of the different actors to reconcile the demands from various parts of their social environment with their own resources and interests. There also exists, therefore, a problem of internal coordination within actors in order to behave efficiently. If we focus upon internal coordination, we have to consider separate actors as self-regulating systems. Our main focus is, however, upon the inter-systemic relationships that are conceived here as a problem of establishing extended chains of actions.

If we consider that for most purposes within the public sector the establishment of that relevant chain of action necessitates the cooperation of more than two actors, it becomes obvious that the issues involved here cannot be conceived exclusively as a problem of interaction between two systems. The chains of action, which are of interest, have, so to speak, a large number of links among various systems, and we have to explain therefore the establishment of longer chains of actions that transcend the realm of direct interactions. This has led us to distinguish operational coordination (i.e. in the immediate context of actions and interactions) and institutional coordination as the establishment of configurations of rules with coordinative power among multiple action arenas. Operational coordination can be improved substantially when it takes place in the context of rules that are known to the actors concerned.

Our concern in this volume is, however, not with all sets of rules that may ease operational coordination — it is hard to imagine rules that might not produce this

effect in particular circumstances. We therefore had to analyze the coordination problem in terms of guidance, control, and feedback. From an analytic perspective, coordination depends upon solutions to three problems: (1) the problem of guidance, i.e. standard setting such that the actions of particular actors may be evaluated in terms of their reference to third parties; (2) the problem of control, i.e. the motivation and the information of the actors in order to promote the complementarity of their actions; and (3) the problem of feedback, i.e. to enable evaluations including those made by third parties to be taken into account in modifying further actions. Insofar as institutional coordination is concerned, the rule configurations are not necessarily efficient in guiding, controlling, and evaluating particular actions as such, but in establishing frameworks that provide for procedures in deviant cases and for promoting regularities and reliabilities among actors and chains of actions.

This short preview of some basic ideas shows that the thrust of the ZiF-group which is summarized in the present volume is a theoretical one. One may ask why theory matters in a field which is impregnated by political contest and where one cannot escape normative options. In section 1.4 we shall discuss these issues. Let us now look first at the line of the argument.

## 1.2 The Red Line

### Part 1 – Problems as Contestable Issues

By this headline we wish to call the attention of our readers toward the basic fact that the public sector is not an evident object for a value-free scientific inquiry but itself a contested issue both in political as in scientific terms. “The” public sector is not a clear-cut system like “the state” but rather an ill-defined field of contest as how far the state should intervene into the regulation of issues which might also be solved without state intervention. We shall not deal explicitly with the political beliefs and forces motivating that contest, but we have to keep it in mind because many scientific approaches imply a certain political vision of the problem at stake and trim the issues towards specific solutions. Thus also the scientific definitions of the problem are often contested. It is our intention to go beyond simplifying approaches and to look upon the structure of public sectors as they have emerged historically in all Western countries. Why this is important and how we use already existing approaches will be sketched in the remainder of this introductory chapter.

We begin then the analysis with a critique of some received views of the public sector from the side of political (chapter 2) and economic (chapter 3) theory. These are the disciplines which have dealt most extensively with explaining the nature and the functioning of the public sector. There are, of course, other traditions of thought such as theories of democracy and of the welfare state. They differ from the previous mainly in their normative approach as they ask for the usefulness of public sector services in terms of claims and needs of the citizens.

The received political and economic views help to understand why these claims often get lost in the jungle of established interests and why the needs of the needy are often not met. But their answers as well as the demands of the normative theories are too general. Chapter 4 goes beyond these generalities and shows how the quest for public control has to be modified in order to bring public sector services in line with the claims and needs of the citizens.

## Part 2 – The Public Sector: Constitutional and Conceptual Problems

This part is devoted to the understanding of what the public sector is about and especially how it is related to the state or to government. Various perspectives are presented here. Chapter 5 gives some evidence of the growth and differentiation of the public sector and interprets it as a multilevel and multidimensional process of bureaucratization. Chapter 6 and chapter 7 focus on constitutional problems of modern political systems from the two very different perspectives which have also been confronted within the ZiF-group. The continental European tradition (chapter 6) conceives the public sector as being related to a strong political center (the “state”), whereas the Anglo-Saxon and especially the American tradition (chapter 7) conceives “government” as being more personalized and potentially multicentered form of public authority. As most political thinking – also of students in political theory! – is impregnated by the evidence of their own national tradition, it seems very important that they understand the differences of these two intellectual traditions and their implications for basic features in the factual constitutions of some countries in Europe and North America.

Chapter 8 analyzes the process of modernization of Western societies in terms of political and sociological theory with emphasis upon the developments of the so-called welfare state. The conception of a “public sector” then emerges as a consequence of the growing interdependence of the highly organized activities of formally private actors and the political intervention of public actors. This will be illustrated and deepened in chapter 9 by analyzing the world of para-governmental organizations which form the bulk of public sector agencies in many countries. As already mentioned, the growing interdependency of the political and the private in the public sector is itself controversial in scope and structure, therefore the definition of the public sector becomes a contestable issue. This will be elucidated in chapter 10 which discusses statistical problems of the public sector both in terms of method and content.

## Part 3 – Guidance, Control, and Evaluation as Conditions for Learning

In the light of the previous sections, the question of the functioning of the public sector can now be restated in terms of guidance, control, and evaluation. Given a multiplicity of actors variously dependent on the powers of political core structures



and potentially able to influence the operation of those powers to a varying extent, the question arises as to how their actions may be coordinated in the long chains of action typical of highly complex societies. This necessitates processes of standard setting and standard using as well as institutional arrangements providing for some forms of control, mutual adjustment, and learning in intraorganizational and interorganizational relationships.

Chapter 11 gives an exposition of such ideas and shows that the fit of guidance, control, and evaluation in the public sector is more precarious than in pure market relationships, but not impossible. It requires a multiplicity of coordination mechanisms (cf. Part 4) and multiple forms of control. In the previous volume some forms of administrative control, i.e. internal control, judicial control, parliamentary control, audit control, and control by affected citizens, were analyzed at some length in Part 6. We have omitted them here for reasons of space but also for shaping the volume on the issues of political theory. The theoretical thrust of this former Part 6 is resumed in chapter 12 and chapter 17. Chapter 12 is more in line with the thinking of the previous chapter 11, whereas chapter 17 fits the cybernetic approach taken in chapter 16. Both converge on the idea that single forms of administrative control remain necessarily incomplete with respect to the often conflicting goals and standards in the public sector. The pressing of single forms of control may even produce contrarious effects. It is the redundancy of multiple controls which keeps the public sector under control and explains its functioning better than market theory would predict.

Chapter 13 on implementation research and 14 on evaluation research resume two mainstreams of recent policy research and show how they have converged to the issues dealt with in the paradigm of learning. Chapter 15 deals with a seldom mentioned issue, namely the problem of how to incorporate ethical questions into the processes of evaluation of public policies and activities. Chapters 16 and 17 give the perhaps most comprehensive perspective for a new understanding of control of and within the public sector. They tackle the very problem of the public sector, its multifarious character, and the multivalence of its tasks from the front and show how a more comprehensive understanding of control may contribute both to a better understanding of the operations steering the public sector and to an improvement of the practices aiming at controlling what is going on in public sector services.

## Part 4 – Comparing Institutional Forms of Coordination

Part 3 was dealing with mechanisms that contribute to a steering of the public sector. The focus was mainly on operational coordination. This last part now focuses on institutional coordination, i.e. on structural arrangements with typical properties favoring certain behavioral patterns from the part of the actors concerned. The chapters of this section try to develop a comparative typology of characteristic institutional modes of coordination operating within (and of course also outside) the public sector. Two of such structural arrangements are very well

known and analyzed, i.e. markets and hierarchies. Chapter 18 resumes these discussions and relates them to the German tradition of *Ordnungstheorie*. But these two institutional forms of coordination do not exhaust the typology which emerges when one asks about the institutional arrangements having coordinating power within modern societies. There is a third type implicit in much sociological writings, but also (and first) in Adam Smith's *Theory of Moral Sentiments*<sup>3</sup>. We call it solidarity and explore its properties in chapters 19 and 20. There are then two forms of coordination which in traditional societies were operating within the mode of solidarity but have become disembedded and shaped in modern times, i.e. votes and vetoes (chapter 21) as the typical mode of political coordination, and mutual adjustment by debate and persuasion (chapter 22) which has become the typical mode of professional coordination.

The mentioned forms of coordination have certain institutional properties, i.e. they imply certain rules which the actors are expected to conform with (cf. chapters 20 and 24). These rules are very different in every type so that one can speak of a classification of forms of coordination. The two remaining chapters of this section take another approach. As has already been outlined in Part 2, relationships among many organized actors with separate interests, goals, and strategies are the dominant feature of the public sector. Compared with interactions among individuals, interorganizational relationships involve a shift in complexity: individual motives and preferences become more patterned, whereas the representatives of organizations have to consider both the opportunities of the organized environment as well as the restrictions emerging from intraorganizational relationships. The modes of coordination operating in that context are multifold and can be understood either as a blend of the forms of coordination discussed above or as a type of its own which is characterized mainly by bargaining relationships. Chapter 23 takes this latter approach and resumes the discussions about coordination in federal and corporatist systems. The basic approach is here from the perspective of the sociological theory of organizations. Chapter 24 by contrast tackles the same issue from the framework of institutional analysis and defines sets of rules which cluster to rule configurations in particular multiorganizational arrangements.

Some items from the former concluding chapter have now been incorporated into the following sections of this introduction. I judged it more appropriate to give to an outsider of the ZiF-Group the last word who had reviewed the previous volume. Thus something of the discussion this approach has stimulated is reflected in the concluding chapter 25.

### 1.3 The Larger Context of Inquiry

Already this sketch of what the reader may find in the following shows that the authors of the various chapters have different backgrounds and different theoretical approaches. Nothing else can be expected from the work of a group whose members

had been selected *for* the heterogeneity of their disciplinary and national perspectives. It is all the more noteworthy that a rather coherent line of argument could be developed. This was due to the long time of interaction among the group members, as noted in the preface and described in Kaufmann (1986).

This section tries to give a short account of existing approaches which have a recognized place in the social science literature and are affine to the present endeavor. Obviously not all group members would adhere with similar fervor to all of the “giants” on whose shoulders we stand (cf. Merton 1965), but it may help the reader to locate this approach within the traditions of social science.

## Immediate Sources

There are some books which have directly inspired the present author to choose the topic and to organize the group. Among them, Dahl and Lindblom's *Politics, Economics and Welfare* (1953) was of paramount importance. Their interdisciplinary approach and their emphasis on the *multiplicity of social processes of coordination and control* was the intellectual model for what I hoped the research group would perform. Of course, the thrust of Dahl and Lindblom has been seminal for much of the work of the American institutional economics, but as far as I can see, no attempt has been made to integrate the various issues of coordination and control into a common framework. Apart from this, the works of Deutsch (1963) and Etzioni (1968) and of course the “classic” of German “Ordnungstheorie”, i.e. Walter Eucken (1944, 1955), have been important intellectual sources for the approach of analyzing coordination problems as problems of guidance, control, and feedback.

Several distinct approaches including the various policy sciences, theories of planning and decision making, the social-indicator movement, and evaluation research had developed in the United States during the 1960s (see Hellstern: Ch. 14). They all aimed at direct contributions to improve the capability of governments to perform a more active part in the then desired transformation of societies. With the development of implementation research (see Sabatier: Ch. 13) political scientists became increasingly aware of the internal complexity of the political system. The need for a more complex approach became apparent (cf. Ostrom 1974). Here the linkage between the policy science approach and more elaborate concepts of the political system (seminal: Easton 1965 a, b) led to a theory of the political process that allowed topics of politics and policy analysis to be related in a common framework of problem articulation, program formulation, program implementation, and evaluation (cf. Majone and Wildavsky 1978; May and Wildavsky 1978). The reception of these various ideas by German scholars (e.g. Hanf and Scharpf 1978; Mayntz 1977; Schaefer 1974) revealed an effort to link various American approaches with continental traditions in order to reach a higher degree of theoretical complexity (cf. Wollmann 1984).

The concern with the *growing social and organizational complexity* thus forms a second line of thought which is incorporated into the present approach. This is a classical subject of sociology since Herbert Spencer, Emile Durkheim, Georg Sim-

mel, and Max Weber. It has been incorporated as theory of structural and functional differentiation of society by recent "grand theories" of Parsons, Habermas, and especially Luhmann (1966, 1986). Luhmann's theory has evolved into a basic challenge to what is aimed for in the present volume, i.e. to explain the steerability of the public sector. His theory of autopoietic systems (cf. Luhmann 1986) states that the growing complexity of modern societies has led to (and is constituted by) self-organizing social systems consisting of certain classes of communications, e.g. legal communications, political communications, economic communications (cf. Teubner and Febbrajo 1990). These systems are self-referential, i.e. they operate on the basis of certain presumptions which find their evidence not in the outside world but in the operations of the system itself: e.g. political is what politics deals with. Whatever such a system perceives from the outside world becomes transformed in the process of selection into an element of the system itself: e.g. not the killing of a man but the murder (or any other type of lethal crime) is an element of penal law. In the same way a collective or even an individual actor is conceived as a (social resp. psychic) autopoietic system, which has its own selectivity shaped by a kind of idiosyncratic sense forming his identity. Communication and more than ever understanding thus becomes a highly contingent process. Intentions cannot be transmitted, but only signals which may be selected by the addressees in an obviously different frame of reference. Political steering in the sense of consensus building and of realizing political intentions thus becomes *a priori* an impossible thing.<sup>4</sup> Although I would not adhere to the extreme consequences of the Luhmannian approach, his emphasis upon the idiosyncratic character of actors and organizations marks strongly the challenge to more conventional explanations of social order which is also ours. But it is undeniable that *coordination occurs* among different actors, as the lengthening of chain of action in the process of civilization (Elias 1978) shows. How can it be explained?

The issue of organizational complexity and intransparency is of course also implicit in the work of Herbert Simon and his *concept of bounded rationality* which is one of the basic premises of this approach. Simon, however, had not yet dealt with the environmental dependency of organizations (cf. Thompson 1967) and with *interorganizational theory* (cf. e.g. Aiken and Hage 1968; Benson 1975; Hanf and Scharpf 1978) which are to be supplemented to his approach.

## Relationships to the Organizational-Failure Framework

An important line of thought which has inspired much of our discussions is the *organizational-failure framework* of the new institutional economics associated with Armen Alchian, James Buchanan, Ronald Coase, Mancur Olson, Gordon Tullock, and Oliver Williamson. Market failure is only a special, albeit important case of institutional failure. There is of course also state failure, and we distinguish more forms of coordination with their specific advantages and weaknesses. The key behavioral assumptions of the organizational-failure approach are bounded rationality and opportunism. Given perfect foresight and information, it would be possible

to foresee every possible contingency, and hence to draft and enforce complex sales contracts in a world of private goods and services at negligible transaction costs. However, as Williamson (1975) points out, the cognitive constraints set by bounded rationality are binding only if the environment exhibits a high degree of uncertainty and complexity. The same point can be put in different terms. The price system has considerable advantages over other institutional arrangements *provided* that the transactions are simple enough so that prices convey the needed information to all concerned parties. Obviously, this condition does not always hold. In many human services, for example, information is asymmetrically distributed between supplier and user (doctor and patient, teacher and student, social worker and welfare recipient); outcomes are ambiguous; and the nature of the transactions is such as to involve hard-to-measure aspects of quality, trust, and confidentiality. In such cases price signals do not carry sufficient information, and exclusive reliance on market arrangements leads to less than optimal results. Williamson neglects the universe of collective goods, common-pool resources, and common facilities that are of critical importance in the public sector. The failure of exclusion and jointness of use or consumption forecloses direct reliance upon price signals and requires other mechanisms to articulate demands, arrange supply, proportion supply to demand, and regulate patterns of use among communities of users. But diverse options remain available.

Opportunism, as the term is used by Williamson, extends the traditional economic assumption of self-interest and its correlates of e.g. overuse of resources, shirking, and free riding to include *deceitful* seeking of self-interest; withholding or distorting information, making false promises, misrepresenting one's preferences and intentions, breaking rules, and so on. The assumption is not that all agents are given to opportunism, but that *some* may behave opportunistically, and that it is impossible or very costly to differentiate *ex ante* between honest and opportunistic agents, or *ex post* between honest and dishonest behavior. From a comparative viewpoint, opportunistic behavior is an important factor in understanding why certain institutional arrangements are not viable, or are less developed than they might be on purely technical grounds: the transaction costs of distinguishing between honest and dishonest behavior tend to be high.

Just as bounded rationality raises institutionally interesting problems in connection with a relatively high level of uncertainty or complexity, so the significance of opportunism is particularly greater when small numbers of actors can collude to exploit large numbers of others. For example, in a truly competitive market (a large-number situation, by definition) the opportunistic inclinations of some sellers will be usually checked by the competitive behavior of many other sellers. Collusions, cartels, and other secret agreements for deceitful purposes are, in general, viable only under conditions where small numbers of sellers can exploit large numbers of buyers and vice versa.

On the other hand, opportunistic behavior is more easily exposed and subjected to sanctions among members of organizations because relationships tend to be more frequent and long-lasting than market relations. Thus it depends upon the nature of the situation which institutional arrangements are more appropriate to cope with its problems.

Compared to the organizational failures framework outlined here, our approach reveals important similarities as well as significant differences. Like Coase, Simon, Tullock, and Williamson, we appreciate the enormous significance of bounded rationality for the *genesis* and *modus operandi* of social institutions. We also stress that cognitive constraints become especially binding in situations of uncertainty and complexity. In the public sector this means an extensive division of labor among governmental, semi-public, and private actors, long chains of actions, and a multiplicity of more or less loosely coupled networks. Finally, as our extensive discussion of methods of internal coordination, control, and evaluation shows, we agree that attention to internal organization is essential for understanding broader, system-wide questions of structure, guidance, and performance.

On the other hand, we believe that the minimization of transaction costs, while obviously important, is not a decisive criterion for choosing among alternative institutional arrangements in the public sector. In the conditions prevailing here *the capacity to learn from one's own actions seems to us to be much more important than trying to specify least cost decisional structures in advance*. Hence, the behavioral assumption of bounded rationality is expanded to include subjective limitations on memory and attention, and especially, instability of preferences. Correspondingly, the environment is characterized not only in terms of this uncertainty/complexity but also of structural and transactional features (e.g., recurrent vs. one-time exchanges) that may facilitate or impede learning (cf. Kaufmann: Ch. 11) in relation to a range of goods and services that do not carry specifiable price tags (cf. Ostrom: Ch. 24).

## The Issue of Consensus Building

Theories of organizational complexity and of organizational failure give good reasons why markets as well as hierarchies may fail to produce the kind of coordination they are designed for. The question then arises why nevertheless more coordination seems to be produced than one could expect from the framework of narrowly self-interested and rational actors acting under the restrictions of markets and hierarchies. Given the extensive possibilities of the few to exploit the many by colluding within the structure of governmental institutions, one has to ask *why these tendencies are not overwhelming*, why corruption, shirking, and other forms of rule breaking are much less common in the public sector of the most advanced modern societies than in most of the others. The degree of development itself seems to be a function of the reliability of the actors involved. Long chains of action must break down if actors cannot trust the reliability of other actors concerned.

This has led us to explore more in depth what Etzioni calls the "normative bonds" (1968: 98) which he holds accountable for the cohesion of collectivities. But we are not simply interested in societal values or their alleged function in decision making but in the mechanisms that make them operative in coordinating actions. Etzioni's theory, as the underlying Durkheimian and Parsonian paradigm, may overemphasize the role of shared values in consensus building and — by a

too hierarchical approach to social reality – differs substantially in his concepts of guidance and control as they are used in the present volume. Nevertheless there is some impact of shared values also in the coordination of actions, provided that they are supplemented by shared definitions of the situation and by some trust among the actors concerned. These conditions are met in two of our modes of coordination, i.e. solidarity (cf. ch. 18 and 19) and professionalism (cf. ch. 21).<sup>5</sup>

*Solidarity* relies on “sympathy” in the sense of Adam Smith’s *Theory of Moral Sentiments* and uses rather elementary forms of commitment as well as of social control (cf. Kaufmann 1984). It is operative only in coordinating actions when the definition of situations is not controversial or when controversies can be overwhelmed by morality and value commitments. That our emphasis on solidarity is a necessary complement to the study of the organizational and social implications of opportunism, rather than an alternative behavioral hypothesis is shown by the fact that transaction-cost economists have recently begun to recognize the importance of factors such as the valuation humans place on dignity and “due process” (cf. Williamson 1983). The problem is how to extend the bonds of trust to larger communities of relationships and avoid the perverse forms of “solidarity” that arise among the few who collude to exploit the many.

*Professionalism*, by contrast, also presumes some shared values but the value consensus remains often hypothetical or implicit. It is supplemented by scientific knowledge and methods as a basis for communication. The focus is on definitions of the situation resp. on plans and methods for action, and it is not consensus building in a normative sense but mutual adjustment by debate and persuasion which leads to the coordination of actions. Our interest in processes of mutual adjustment and social interaction owes much to such works as Michael Polanyi’s *The Logic of Liberty* and Lindblom’s *The Intelligence of Democracy*. However, we stress the fact that interactive problem solving always presupposes some shared meaning and common rules, i.e. elements that set the context of particular action situations. These may be not only professional but also *democratic*. But mutual adjustment by debate and persuasion occurs there only as a prelude to decision making which is normally terminated by a vote or by a veto.

## Relationships to the Exit–Voice Framework

Broader issues of citizen participation, quality evaluation, and loyalty play a key role in Hirschman’s *Exit, Voice, and Loyalty*. Not surprisingly, the influence of the exit–voice framework is apparent in a number of chapters of the present book. While Hirschman’s approach does not lead to a definite prescription for some optimal mix of exit and voice (and it is unlikely that one could specify an efficient mix of the two that would be stable over time), it does show that it is possible to determine, at any given time, whether there is a deficiency of one or the other of the two modes of response to quality decline. This is very much in the spirit of the present work which is directed to make the reader sensitive for situations of imbalance or poor fit among different methods of coordination and control, rather than to advocate some allegedly optimal combination.

Our efforts go beyond concerns with exit, voice, and loyalty within the confines of existing institutional arrangements and begin to explore questions of how alternative types of institutional arrangements affect opportunities for the articulation of demand through both voice and exit. Perhaps the most important opportunity for the exercise of voice in human societies pertains to institutional analysis and design, and the critical assessment of performance through alternative institutional arrangements.

## Other Influences

These approaches were only reluctantly received in Germany. Here, the neo-Marxist wave of the early 1970s had shaped a critical interest in the relationship of the polity and the economy that was also called "political economy" (cf. Frey 1974). The niche for a rather rough neo-Marxist thought in Germany resulted from a growing gap between economics and sociology in Germany. The influence of American traditions, marked by a strong separation between economics and sociology, had become overwhelming; and the traditional linking of economic, political, and social problems in the German historical school had broken down. There remained, however, some interest in problems of public enterprise (cf. Thiemeyer 1970) and in problems of economic order in the tradition of *Walter Eucken*, that now became slowly oriented to a theory of complex systems (cf. Leipold 1976; Schenk 1978).

Theoretical and empirical approaches to the problems of the *welfare state* remained separate from these lines of thinking. Seminal was the tradition at the London School of Economics (T. H. Marshall 1964; Robson 1976; Titmuss 1958). American studies remained scattered (Janowitz 1976; Wilensky 1975). In Germany a great tradition had been forgotten until the mid-1970s, when research and discussion began on a large scale (cf. Kaufmann 1982). With respect to the present volume, issues concerning the welfare state are relevant mainly to problems of coordination for the social services which have emerged from charitable institutions and the household's economy and have not — as it is conventionally assumed — been differentiated from the market economy. Therefore they constitute a specific segment of the public sector with their own coordination problems which should not be confused with the problems of a "mixed economy".

## Conclusion

To sum up, we conceive the thrust of this volume as the result of a lasting confrontation between American and European thought which have cross-fertilized over various issues dealt with in this volume. Perhaps the most important junction concerns American institutionalism and European concern with political and economic order. Another far-reaching junction concerns the systematic introduction of organization theory in the actor-oriented framework of coordination. I hope



that this volume is a step in the line suggested by two eminent political scientists in their comment to the new institutionalism: “Human actions, social contexts, and institutions work upon each other in complicated ways, and these complex, interactive processes of action and the formation of meaning are important to political life. Institutions seem to be neither neutral reflections of exogenous environmental forces nor neutral arenas for the performances of individuals driven by exogenous preferences and expectations... For the most part, however, the relevant theoretical work remains to be done” (March and Olsen 1984: 742).

## 1.4 Causes, Norms, and Reasons: The Interplay of Analytic and Normative Inquiry

### The Multiplicity of Values and the Public Interest

The aim of this volume is to provide empirical evidence, theoretical foundations, and conceptual tools for better understanding the operations that take place within what is conventionally called the public sector. This is an analytical as well as a normative task. Insofar as activities have to be considered as belonging to the public domain, one cannot judge them primarily in the perspective of individual interests, but one has to assume that they serve a public interest – whatever this means. The substance of what is referred to as being of public interest as well as the scope of the public domain are always *contested issues* in democratic societies. Under these circumstances, scientific work has to be concerned mainly with the conditions and procedures which, despite the contestability of nearly every issue of public interest, allow for an assessment of patterns of development in relation to standards of performance.

Given the great variety of political theories, constitutional provisions, institutional arrangements, and administrative cultures among Western societies, it is very difficult to ascertain common patterns of regulation that apply to the public sector. The thrust of the ZiF-group consists, therefore, in an attempt to find conceptual tools that account for both common features and differences in the problems and functions of public sector activities.

In trying to draw general conclusions from our inquiries, one has first to record that guidance, control, and feedback within the networks of multiple actors in the public sectors cannot be explained by reference to a single pattern of institutional arrangements. There is not a comparably elegant theory to market theory for explaining coordination among private enterprises. The fit of standard setting, control of producers, and provision for the needs of citizens / taxpayers / consumers can by no means be taken for granted in public services. This is due mainly to the fact that public services are expected to serve a variety of different goals and are evaluated by a multidimensional set of standards (e.g. legality, economy, effectiveness, responsiveness) that cannot be reduced to a unidimensional standard of cost

or utility (cf. Wirth: Ch. 4). The reason why the production of goods and services is of public interest is to be seen in their impact upon political, cultural, or social aspects of life. If — as in market theory — the mechanism of competition and floating prices for commodities is judged to be a convenient form of coordination, this amounts also to the acceptance of money as a medium of exchange, as, simultaneously, an appropriate measure of utilities and interests.

Standard setting and standard using (evaluation) is therefore necessarily a *multidimensional* issue in the realm of public interest. This fact complicates the problem of coordination as well as the problem of understanding the nature of the public realm. The operating ideologies of practitioners (and often also of scientists in close association with some policy area) tend to emphasize particular dimensions of a policy problem and to neglect others. Thus, there necessarily seems to be conflict among different interests that cannot be readily settled by established rules of law or by cost — benefit analysis.

Practical solutions to this multigoal and multistandard problem have occurred within particular national traditions. One finds, however, a common feature: Particular organizations are created to pursue specific goals, and particular organizations are charged with evaluation and control with reference to particular standards or criteria (e.g. law courts for legality and auditing courts for economy). In other words, a strong division of labor within the public sector occurs with reference to tasks to be accomplished or criteria to be applied. But, there is no “common denominator” (such as market prices) that facilitate the necessary bargains and transactions in accommodating extended chains of actions. *The public sector is necessarily fragmented, and so are the operating controls.* This, however, does not mean that control lacks regularity. Rather, one may ascertain various patterns of control linked to specific standards and accessible to specific monitoring arrangements (cf. Wirth: Ch. 12; Dunsire: Ch. 16). From a political point of view, then, the question is inevitable which interests have access to what forms of control and to what extent the standards used fit the needs and interests of those involved in the larger configurations of relationships in human societies. This leads not only to questions of ethics but also to issues of institutional design.

## The Present Approach to the Problem

From a more analytic point of view, our problem can be stated as follows: *How can such a multiplicity of actors with particular interests coordinate their actions in order to produce outputs that are consistent with the interest of third parties?* This can be explained only by using a *multilevel approach* to issues of guidance, control, and feedback, and by distinguishing various *types of institutional coordination* with specific strengths and weaknesses. Moreover, one has to assume a *redundancy of control structures* in order to hold deficiencies within reasonable limits. This approach may disappoint both those who believe in the possibilities of rational policy-making and those who are convinced of the evils of public intervention. There is no easy way to political ideologies from the framework just sketched.

Our inquiry is normative insofar as it is concerned with democratic values and with the coordination problem. We, therefore, assume that it is worthwhile to search for the common features of institutional arrangements that support the integrative function of a shared understanding, while also allowing for flexibility and responsiveness to diverse problems requiring collective decisions. This kind of normative reasoning has to face two standard objections: First, that it is impossible to *prove* the desirability of normative standards. And, second, that even if there were substantial agreement about the issues, there may still be serious impediments to institutional reforms.

Insofar as the first objection is concerned, we want to deal with it as a feature of shared experience below the level of philosophical speculations. Any normative standard – to facilitate or ease coordination – is general and open to different specifications. Coordination is possible through conflict as well as by cooperation. Both may lead to the establishment of extended chains of actions under specific institutional arrangements.

Rivalry in competitively constrained circumstances among political parties, interest groups, and bureaucratic organizations, for example, can yield coordinated chains of actions of as great or greater complexity than those attained through conscious cooperation (cf. E. Ostrom: Ch. 24). Specific arrangements and their alleged properties and consequences become a part of a larger awareness in the contestation of political debate.

Moreover, the standard by which we propose to evaluate the coordinative capacity of institutional arrangements is not taken from personal convictions, but *emerges in the course of analytic inquiry about modes of coordination*, i.e. by analyzing empirical evidence and theoretical explanations of coordination in the economic and political domain. Specific norms accrue from an awareness of problems that every actor has in interaction with other actors.

The general quality of institutional arrangements that ease coordination can be described as follows: *Given the limited rationality of all actors and the contestability of all political issues, institutional arrangements should provide possibilities for learning among all of the actors concerned.* Learning implies the experiencing of successes and failures. In order to enable coordination to occur with other actors, it is, however, necessary that successes and failures are related to the evaluations of those who are concerned with particular actions. This cannot be performed by market mechanisms alone, but depends upon various other institutional arrangements as well.

One should add perhaps some reflections concerning the image of man that underlies this presentation. Man is conceived here neither as exclusively selfish nor as being bound only to the pursuit of material self-interest (as in economic theories), nor as motivated exclusively by fear and pleasure (as in theories of dominance), nor as bound primarily by societal values and committed to internalized norms (as in sociological structuralism). Each of these simplifying approaches emphasizes a particular aspect of human potentialities and of the possible impacts of institutional ordering. Moreover, we would emphasize a fourth aspect, namely the capacity of man for sympathy, for a fellow feeling and a sense of propriety and of justice as

described first by David Hume in his moral philosophy, and by Adam Smith in his theory of moral sentiments.

It is plausible to assume that in anonymous relationships as they are characteristic of highly organized market situations, men orient themselves primarily by what they conceive to be in their self-interest. *The cognition of what is in one's own interest, however, depends crucially on the institutional arrangements that govern the situation.* Moreover, men are capable of assessing not only their present situation but also how institutional arrangements, the configurations of norms themselves, affect those situations. It is in this respect that one may assume that a sense of justice and propriety is operative as standards of judgement applicable to diverse circumstances. Under conditions of relative equality, nobody knows whether he will eventually be among winners or losers if the rules of the game favor one-sided outcomes (cf. Buchanan and Tullock 1962; Rawls 1971). Incentives exist to strive for fairness of outcomes, given essential equalities among all concerned.

## Does Institutional and Organizational Analysis Matter?

This last argument also provides some answer to the second objection to an inquiry into the possibilities of institutional design. It is, of course, undeniable that institutional reform is facilitated and hampered by contested interests, whatever its scope and content may be. And there are many examples of a resistance to changes that seem to be impenetrable to better arguments. But the veil of ignorance often makes it more difficult to assess one's own interest with respect to institutional arrangements than to operational arrangements with known payoffs. This provides opportunities to pursue institutional reforms where operational arrangements yield perverse consequences. There is enough evidence that existing modes of coordination yield perverse effects at operational levels to require further attention to problems of institutional analysis and design. But why should such an inquiry be of practical interest?

Human action is always related to cognition of a defined situation. Human cognition is essentially dependent upon culturally bound definitions as they are provided in everyday life by normal language.<sup>6</sup> We communicate within "shared realities" and communication loses its power insofar as we are unable to relate to shared conceptions of reality. This is not only true for our everyday life but also for behavior within and among organizations. Members of an organization tend to develop shared conceptions that are particular and more or less unknown to outsiders.

Nearly all relevant interaction within what is conventionally called the public sector is *organization-related interaction*, i.e. it takes place among the representatives of organizations or among position holders within an organization and across organizations. Even the most secret and informal contacts among persons that concern political or administrative issues will be essentially related to the positions of these persons within political and administrative frameworks. *There is no position-free communication that is relevant for public issues.* This, of course, is itself a

consequence of the emergence of modern governments and administrations. Former sovereigns were more dependent on personal relationships that were extensions of households and of long-established feudal bonds.

Insofar as persons interact as representatives of organizations there will always be three frames of reference operating in the mind of the actor: the frame of reference of the *individual actor as a person* (e.g. his assessment of his personal interests, his emotions, his sense of justice, and his identity), the frame of reference of the *organization* he is representing, and the frame of reference of the *interaction* he is participating in. The latter frame consists essentially of the history of the interaction itself (and representatives normally meet repeatedly), but it is defined also by the relationships among the organizations they are representing. This interorganizational network of relationships usually exceeds the range of knowledge available to actors but they are nevertheless operative. Besides contractual rules and contested issues, a large number of explicit norms and rules normally define such interorganizational relationships. We find here an example of *the real complexity facing actors within the public sector*. But until now there has been no theory that accounts for such complexities. Theories either consider organizations as corporate actors and neglect the individuals that act as representatives, or they assume – following some of the precepts of methodological individualism – that only individual actors matter.

Analytical methodology as it is reflected in current social science research is hardly an adequate guideline for dealing with such problems. Its aim is to reach generalized conclusions by sorting out a small number (seldom more than two or three!) of dimensions or factors which are assumed to be the most relevant for a wide range of phenomena and by neglecting the context in which these factors operate. Thus, analytical models of thought remain clear, well-defined, and simple. But they cannot be helpful if the real problem consists in a reality of overwhelming complexity which seems not to be simply contingent (and hence inaccessible to any intellectual ordering) but structured and even more or less apparent to the relevant actors (cf. Mayntz 1985). They then do not need a small set of general assumptions (as valid as they may be) *but cognitive devices to better understand the complexities in which they act*. Therefore, the thrust of the present volume consists mainly in developing new (or at least more consistent) conceptual frameworks which attempt to give greater insight into the paramount features of and conditions for functioning in the public sector than traditional theories in various disciplines.

Whether we like it or not, we have to acknowledge that one very effective practical impact of the social sciences is their *contribution to collective conceptions and definitions of reality*. Our shared conceptions of “the market”, “the state”, or “public interest” are cognitive “sediments” of former scientific inquiries that had been disseminated, became accepted by different social groups and have even become a part of general public opinion.

If therefore it is true that human beings are unable to perceive “reality as such” but always act in defined situations where interaction takes place only upon the basis of shared conceptions, it becomes crucial that these conceptions account for the operating rules and forces that establish order in human societies. As these rules and forces as well as their interaction have grown substantially and have been

transformed into organized patterns of relationships, *we also need shared conceptions that allow those changing relationships to be taken into account*. Patterns of organized complexity in modern societies are likely to manifest patterns of relationships which are counterintuitive. *Based upon "commonsense" conceptions, we imagine disorder and chaos, but further inquiry often reveals a deeper, more complex order*. Most of our conventional thinking about public and private, about planning and markets, etc. has been made obsolete by the processes of historical evolution and change. This volume should be understood as a search for the new conceptions that we need.

Shared communities of understanding that provide the foundation for extended chains of actions characteristic of modern society depend upon translating the world of experience into symbolic representations articulated in language and then using those symbolic representations to reconstitute the reality of social experience. *The translation of experience into theoretical knowledge, and the use of theoretical knowledge to alter the relationships that are constitutive of experience, are integral aspects of human cultural evolution*. Whether the course of events revealed by history yields new achievements in human cultural evolution depends in some significant degree upon the relationships of experience and knowledge to institutional analysis and design that are properly disciplined by processes of contestable argumentation, reflection, and choice that are, in turn, bounded by rules of just conduct. In some general sense we presume that standards of truth, justice, and well-being are compatible with one another in ordering relationships in human societies. Assessments indicating conflict between values of human life do not *per se* contest the compatibility of standards but define situations as challenges for improvement.

If we conceive human beings as well as social systems not only as self-referent but also as reflective systems, i.e. (at least potentially) endowed with the capability to conceive and hence to modify their own identity, a major function of social science for society becomes apparent: its contribution to self-understanding and hence to a higher degree of self-control in social systems (cf. Luhmann 1981: 198–228). This work, however, is more "interpretative" than "empirical" with the result that conjectures are less easily *refutable* than in the physical sciences.

Popper's approach to conjectures and refutations may not provide an appropriate method for proceeding with inquiry within such a subject. If acted upon, the conceptions and associated structure of elements and relationships may give rise to different realities in human societies. Our opportunity to make advances was primarily in making conjectures that clarify the similarities and differences which derive from different approaches to problems pertaining to the organization and performance of institutions in the public sector.

Such conjectures might be viewed as *contestable* rather than *refutable*. Arguments formulated as contestable conjectures are essential to an understanding of what can be learned from others' experiences. The contestability of conjectures should lead to a clarification of differences which are yielded when different conceptions are used as the basis for organizing different opportunities that may be available to them in addressing problems pertaining to guidance, control, and feedback in the public sector.

Life in democratic societies is grounded in a faith that particular interests, if properly understood, are compatible with public interests and that shared communities of interest are the proper foundations of human societies. Where the rule-constrained exercise of power is used to check rule-constrained power, human beings can come to a resolution of how to relate to others in properly constituted communities of interest, so that power is shared among the diverse interests that constitute larger communities of interests. Conflict provides the energy that drives the use of human intelligence toward resolution. It is conflict and the quest for conflict resolution that enables human beings to transcend what is and to consider what might be. We can but inquire, explore, attempt to understand, in light of contestation, and then to engage in social experiments grounded in rules of just conduct and critically informed by reflection and choice.

## Notes

- 1 In the Federal Republic of Germany about 1,500 laws and 2,900 decrees issued by the federal government are in force. On the level of the *Länder* there are additional laws and above all more decrees and administrative orders, e.g. in Baden-Württemberg more than 80,000. This bulk of legal norms is now supplemented by decrees issued by the authorities of the European Community.
- 2 To give only one example: The proportion of health expenditure interns of GNP is – following OECD statistics for 1982 – highest in the mainly market regulated health system of the United States (10,6%); it is lowest in the countries with a National Health Service like New Zealand (5,7%) and the United Kingdom (5,9%). Moreover the dissatisfaction with the health service is by far the highest in the United States, as measured in a study of the ten major industrialized countries. Most satisfaction is with mixed health systems as in Canada, the Netherlands and the Federal Republic of Germany. (Blendon et al. 1990)
- 3 It may be noted by the way that the ZiF-group found some of its common ground by turning back to the work of Adam Smith who has been reinterpreted as a *political philosopher* who has dealt not only with the market but also with the state and with solidarity in order to understand the ordering of society. Cf. Kaufmann and Krüßelberg 1984; Winch 1978.
- 4 Critics of the first edition have argued that the present approach seemed to owe much to Luhmann's theory but did not discuss it explicitly. My own thinking has indeed been shaped substantially by Luhmann's insights, but I differ in at least two points from his approach: 1. this approach remains essentially actor-oriented. Actors, however, are always dependent upon their environment for getting resources or for the success of intentional actions. Whereas Luhmann stresses the independent selectivity, I emphasize the dependency of selective systems. 2. Luhmann's frame of reference is that of "grand theory" aiming at very general concepts which are necessarily remote from any understanding by practical men. My intention is directed towards theories of the middle range. They are related to certain spheres of social experience and should present cues for a transformation to practical understandings of problems. – Obviously not all authors of the ZiF-group had access to Luhmann's theory which at that time was not translated into English at all.
- 5 Of course, shared values may facilitate also hierarchical coordination, and trust as well as loyalty also ease market relationships. But they are not essentials in the analytic paradigm of markets and hierarchies.

- 6 The classic formulation of this position stems from W. I. Thomas: "If men define situations as real, they are real in their consequences." This position has now been proved by evidence of cerebrum research as well as by cognitive psychology. For the development of a sociology of knowledge that takes this state of affairs into account see P. Berger and T. Luckmann 1966. For a more elaborate application to problems of societal steering see Willke 1983.

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