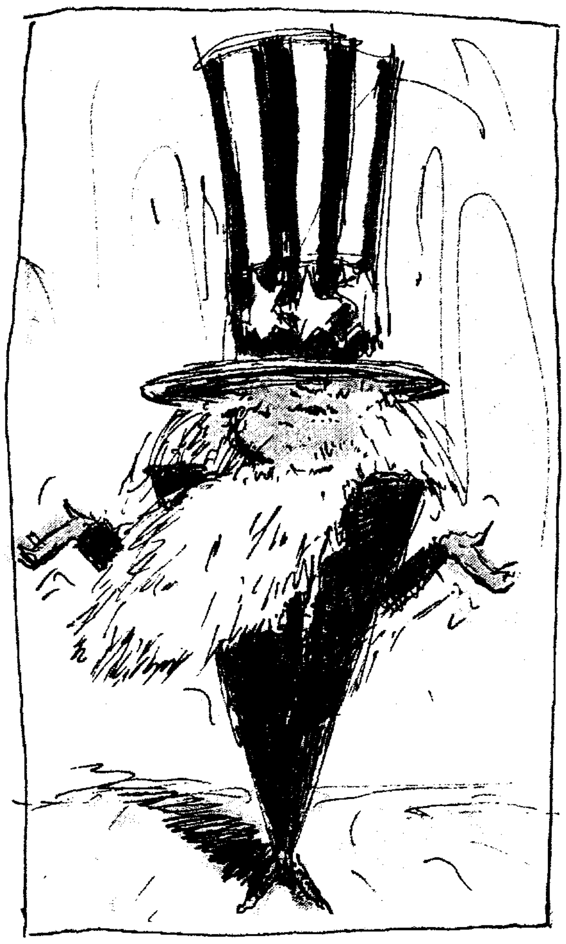

JERRY MCLAUGHLIN FOR THE CHRONICLE

When Government Is Reinvented, Ethics and Entrepreneurship Can Peacefully Coexist

By Steven Cohen and William Eimicke

"PUBLIC ENTREPRENEURSHIP," the idea that governments should be run more like businesses, has gained increasing acceptance among elected officials and public administrators over the past several years.

Vice-President Gore's widely advertised campaign to "reinvent government" is the most extensive and sustained effort to pursue this idea, but local governments around the world have embraced the movement. In the midst of fiscal belt-tightening and public opposition to increased taxes, public administrators welcome the idea that governments can succeed by doing more with less. Mayors such as Stephen Goldsmith of Indianapolis, Edward Rendell of Philadelphia, and Rudolph Giuliani of New York pride themselves on reinventing city government.

Most scholars of public affairs, however, have been skeptical about public entrepreneurship, questioning its effectiveness and effects on democracy. They fear that entrepreneurial programs allow unelected bureaucrats—who may not be monitored, assessed, or held accountable, as elected officials are—to take risks with the public's money. Some leading scholars of public administration, including H. George Frederickson, a strong critic of public entrepreneurship from the University of Kansas, go even further. They argue that turning over government's obligations to the private sector is responsible for increasing corruption and unethical behavior.

We share these scholars' concerns, but we believe that entrepreneurship in government is necessary, particularly given a public that constantly seeks more and higher-quality public services and yet also wants lower taxes and less government. Government entrepreneurship can be ethical, but to insure that it is, we need better operating guidelines for practitioners and more attention to ethics in the programs that train public administrators.

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Entrepreneurial government involves emulating the private sector by emphasizing earning rather than spending. Public entrepreneurs constantly seek to shift resources from areas of lower return to areas of higher productivity and greater yield. They may cut costs by turning over some of the traditional functions of government—such as garbage collection—to private contractors, and may be willing to take financial risks, among them the investment of public money in stocks and bonds, to reap financial rewards.

Over the past three years, we have used the following three case studies to illustrate the risks and rewards of public entrepreneurship to students in our graduate seminar in public management.

■ In Indianapolis, Mayor Goldsmith has held more than 60 competitions for more than $500-million in city contracts for various services. City workers won all or part of 29 contracts, while private companies won 35. The savings to taxpayers are estimated at more than $120-million over seven years. The most significant project transferred operation of the city's wastewater-treatment plant to a private company, costing the city $65-million less over the term of the five-year agreement than if city workers had done the job. Jobs were found in other government agencies for the city workers who weren't hired by the new operator.

Although opponents of the agreement blamed the private operator for two accidents that led to the death of 500,000 fish in the local White River, an independent consultant concluded that the private contractor did not contribute to the fish kills.

■ In Visalia, Cal., the city manager, Theodore Gaebler, one of the architects of reinventing government, instituted a flexible budget system in the late 1970s that permitted departments to spend leftover funds on any project that met the agreed-upon mission of the departments. A mid-level employee in parks and recreation thus was able to acquire an Olympic-sized swimming pool for the city at half the market price.

Reinvention turned sour, however, when Gaebler's successor entered into a public/private partnership to build a downtown hotel. The private developer failed to perform and then filed for bankruptcy, leaving the city with all of the debt and a half-finished hotel.

■ In Orange County, Cal., the county treasurer, Robert Citron, used innovative and aggressive investment policies in the early '90s to earn for the county—and 169 other municipalities who contributed to an investment pool—5 per cent more than the state of California was able to earn on its investments. In fiscal 1994-1995, about a third of Orange County's operating budget was derived from investment earnings. But on December 6, 1994, the county declared bankruptcy in the face of $1.7-billion in losses sustained by its investment pool, resulting from the high-risk strategy of speculating on trends in interest rates.

DISCUSSING the Visalia and Orange County cases, we ask our students to think about whether the policies that caused problems are inherently suspect or could have been carried out ethically. Critics of public entrepreneurship point to the Orange County debacle to argue that government cannot and should not be run like a business, and that it is always unethical to put public funds at risk. However, while following this prescription could certainly have prevented the problems that developed in both Orange County and in Visalia, it would have precluded the successes in Indianapolis. Furthermore, it would have prevented the many years of profitable investments by Orange County and all of the successes achieved in Visalia before the hotel project.

In fact, if any risk to public moneys were defined as unethical, most governments' modern money-management practices would have to halt. For example, most city governments invest employee pension funds in the stock market; that is the best way to insure that the pensions will be large enough for their employees to retire on. Even the most conservative and professionally approved investments involve some risk.

We try to show our students that ethics and entrepreneurship can peacefully coexist, and can even be mutually reinforcing. Closer examination of the problems in Orange County and Visalia have convinced us that they were caused by incompetence among certain public officials and by a lack of oversight, not by corruption. Public officials should and can be held accountable for their actions, whether they are governing in a traditional or an entrepreneurial way. If the Orange County Board of Supervisors had exercised proper oversight of the county treasurer, they would have been aware of, and could have halted, overly risky investment practices. Similarly, more oversight of Gaebler's successor in Visalia and of the hotel developer could have prevented the loss of taxpayers' money there.

We teach our students that there is an ethical dimension to incompetence. Failure as a result of changed conditions, bad luck, or bad timing is one thing; failure as a result of the lack of technical expertise or other skills necessary to do one's work properly is a dereliction of duty. The treasurer in Orange County was not knowledgeable enough about investing, nor was the city manager in Visalia informed enough about the hotel developer, to take the actions each one took.

INCOMPETENCE at the public's expense is a violation of the public trust, an abuse of office, and a major breach of public ethics. We emphasize to our students that they must be concerned not only with getting good jobs but also with making sure that they have the skills and knowledge to carry out their responsibilities competently and ethically. If they do not have the skills to perform a particular task—whether it be overseeing a building project or investing money—they should ask for help from professionals in those fields, who, in turn, have been carefully screened to insure that their advice is objective.

These steps are not foolproof. By its very nature, entrepreneurship involves risk. We stress to our students that it is their professional responsibility to identify the risks of an enterprise and to articulate any potential negative effects. If such risks are to be taken, they must be made with at least the full knowledge, if not the complete understanding, of the public. Some risks are too speculative for government, and the ethical public manager must withstand the pressure to undertake them.

What happened in Orange County and Visalia could have been avoided if government officials had followed this advice, but it would not have precluded their successful innovations, or those in Indianapolis. Ethics and entrepreneurship can go hand in hand: Taking personal responsibility and treating incompetence as an abuse of office are not just ethical practices, but successful business practices as well.

While government cannot be operated completely as a business, we believe that reinvention is a successful and proven strategy in the public sector. Graduates of our public-administration programs are expected to think and perform like entrepreneurs. Former students of ours who have gone on to work in government tell us that they are indeed under increasing pressure to do more with less, and to turn to the private sector when possible.

It would be nice if that pressure were accompanied by a concern for the risks of entrepreneurship and for the ethics of risking the public's money. Those of us teaching future public managers must provide them with an ethical road map for their evolving role. Former students tell us that while we did not give them all of the answers, we did help teach them to ask the right questions.

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Needed: a Nobel Prize for the Giants of Social Science

By Michael S. McPherson and Morton Owen Schapiro

ROBERT C. MERTON, the Harvard University economist who was named co-winner of the 1997 Nobel Memorial Prize in Economic Science last October (along with Stanford University's Myron S. Scholes), is the son of the distinguished sociologist Robert K. Merton. Both Mertons have moved their fields in new and fruitful directions.

> "The best work in cultural anthropology, political theory, and social psychology is surely comparable in worth to economists' efforts."

The younger scholar received the prize for his work on a new method of determining the value of investment derivatives. The senior Merton has produced a rich and varied body of work that stretches into the sciences and the humanities. In particular, he is the principal architect of the field of the sociology of science. His studies of the social origins of science and of the functioning of the scientific community have forged an agenda for a whole cadre of social scientists, and have profoundly influenced the discipline of sociology as a whole.

But the senior Merton has never won a Nobel Prize. One might respond that because he's not an economist (nor a practitioner of other disciplines in which Nobels are awarded—literature, chemistry, physics, and medicine) this is not surprising. Yet in the early years of the Nobel prize in economics, created by the Central Bank of Sweden in 1969, some giants of 20th-century social thought were honored whose principal contributions were not in economics.

Along with major contributors to modern technical economics, such as Paul Samuelson and Milton Friedman, the Nobel has been presented to thinkers whose contributions to modern social science were more expansive—people such as Friedrich Hayek, a pioneering advocate of libertarian conservatism, and Gunnar Myrdal, whose book *An American Dilemma: The Negro Problem and Modern Democracy* remains an essential reference on race in the United States.

In recent years, though, the Nobel committee has honored work that is increasingly inward-looking and technical. Thus today, Robert K. Merton is not alone among major scholars in social science who have been passed over. Harvard's John Rawls, probably the leading social philosopher of the century; the Institute for Advanced Study's Clifford Geertz, whose writings have revolutionized social anthropology; and the late Thomas Kuhn, whose work in the history and philosophy of science rivals Merton's in its range of impact—all these great thinkers share with Robert K. Merton one disqualifying characteristic: They are not economists.

How much more satisfying it would be if the achievements of leading economists were weighed against those of other social scientists. Deliberations then would center on identifying the contributions that deepened our understanding of the human condition and pointed toward ways of improving it. The best work in cultural anthropology, political theory, and social psychology is surely comparable in worth and significance to economists' efforts.

Broadening the playing field would have the not-incidental effect of highlighting the work of some present-day economists whose major contributions extend beyond the technical parts of economics, toward broader social theory. Scholars of this type who thus far have been overlooked include Albert Hirschman, of the Institute for Advanced Study, who has thought deeply about the interplay of politics and economics; and Amartya Sen, of Harvard, a leading thinker on relations between economics and ethics.

We suspect that we are not the only economists who think that a Nobel Prize in Social Science would make a wonderful counterpart to the other Nobels. In our field, a little competition is almost always thought to be a good thing.

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