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## DECISION MAKING: RATIONALITY AND RISK

Former Newark mayor Cory Booker won a huge audience on his Twitter account—more than 1.4 million followers. In 2012 he took up a Twitter challenge to live on food stamps for a week. During blizzards, he tweeted from the cab of a city snowplow. He used this at-the-front approach to service delivery to win a 2013 race for a seat in the U.S. Senate.



**M**OST EARLY STUDENTS OF PUBLIC ADMINISTRATION concentrated on *structure* and how best to design it so it would function as efficiently as possible. Their contributions heavily shape Chapter 4 of this book. In 1945, however, Herbert A. Simon made a very different argument, based on decision making. He argued,

The task of “deciding” pervades the entire administrative organization quite as much as does the task of “doing”—indeed, it is integrally tied up with the latter. A general theory of organization that will insure correct decision-making must include principles of organization that will include correct decision-making, just as it must include principles that will insure effective action.<sup>1</sup>

Simon thus established decision making as *the* foundation of public administration. There have been fierce arguments since about its role, but one thing is clear: It is impossible to understand administration without understanding administrative decision making.

Bureaucracies are complex organizations designed to do complicated things. Much of the doing depends on power delegated to administrators—and the expertise they use in exercising their discretion. Accountability depends on holding administrators accountable for how they do that. Therefore, the effectiveness and accountability of public administration both hinge on decision making. As Simon pointed out, doing is impossible without deciding. There have been many conflicts on what theory of decision making is best, both for describing how it *does* work and how it *should* work. These questions both lie at the foundation of the field.

This chapter first examines the basic problems that decision-making theories must answer and then probes competing approaches to decision making. It also examines the enduring problems of decision making and then focuses, in particular, on the challenges of risk in making good decisions. This chapter has twin themes: rationality (what a *good* decision is) and risk (how to make sure that decisions don’t court *unintended problems* that undermine the effort to make good decisions).

## BASIC PROBLEMS

Every approach to administrative decision making must tackle two issues. First, what *information* can decision makers use in reaching their judgments? Information is the basic raw material of decisions, and decision makers must acquire, weigh, and act on the data they collect. Second, how do political *values* affect decisions? The sheer complexity of public problems and the overwhelming volume of information force decision makers to simplify the context shaping their decisions. This inevitable simplification is the product

## CHAPTER OBJECTIVES

- Understand the role of information and values in decision making
- Explore rationality as the foundation of decision making, in theory and practice
- Examine bargaining and other alternatives to rationality in decision making
- Probe the limits on decision making and where existing theories fall short

of political values. Moreover, for a decision to stick, it must win enough support to prevent others from seeking to overturn it. Building support means finding a common base of values among those who could sustain the decision. Both information and values constantly intermingle as administrators seek to make decisions and as theorists seek to develop arguments about how the process does—and ought to—work.

## Information

If decision making is the central administrative act, information is the lifeblood of decision making. Decisions, of course, can be made at whim or on the basis of strong opinions. But, as Max Weber pointed out long ago, administrators are hired not for their bias but for their expertise.<sup>2</sup> We expect administrators to use that expertise to make good decisions.

The problem, of course, is that information rarely is an abstract truth. Most often it's a matter of interpreting reality. No one ever knows everything. Not everyone knows the same things. And no one is sure that what they think they know is correct. Acquiring information is often expensive, and some participants have an advantage because they have greater resources to get more information. Moreover, participants sometimes have a vested interest in keeping information hidden from others. Two aspects of information thus critically affect decision making: who has what information and how they and others interpret the information they have.<sup>3</sup>

## Values

Values matter in making decisions because of the complexity of the problems. “Most important decision puzzles are so complicated that it is impossible to analyze them completely,” Robert D. Behn and James W. Vaupel argue. Furthermore, they contend, “Decisions depend upon judgments—judgments about the nature of the dilemma, the probabilities of events, and the desirability of consequences. Decision making is inherently subjective.”<sup>4</sup> Any process that includes some questions but not others or weighs some outcomes as more important than others is, inevitably, a value-laden process. Therefore, decision-making theories must consider the question of how best to make such value judgments.

Furthermore, because value judgments are political judgments, no public policy decision, no matter how expertly reached, can endure if it does not command political support.<sup>5</sup> As Francis E. Rourke points out, political support for administrative decisions can come from two sources: an agency's decisions may enjoy a favorable opinion among the general public (what Rourke calls an agency's “mass public”) or they may draw support from its “attentive publics” (groups that have a “salient interest in the agency”). Most effective agencies cultivate support from both.<sup>6</sup> The National Aeronautics and Space Administration (NASA), for example, works hard to promote the allure of space flight among the general public, while it labors to build support among its contractors for the unending battles on Capitol Hill over financing for its expensive programs.

As important as broad support is, however, political support from an agency's attentive publics typically is much more crucial. Few private citizens have the resources or time to follow or comprehend the intricate detail and complex trail that most public policy decisions follow. In most decisions, only individuals who have the strongest interest are willing to devote the time and money needed to understand and influence the issues. This means, of course, that most difficult administrative decisions are reached within a relatively closed world dominated by those with common and intense interests.<sup>7</sup> But that, in turn, raises a problem: seeking the support of an agency's attentive publics risks sacrificing the broader interests of the general

public. Moreover, few public decisions are ever stable, because the political lineup of forces constantly changes. That makes decision making “inherently unstable,” as Stone puts it, and the boundaries between the forces are “border wars waiting to happen.”<sup>8</sup>

The complexity of decision making in bureaucracy has led to many different approaches. In this chapter, we explore four approaches and we examine how each deals with the fundamental problems of information and values: (1) the **rational approach**, which seeks to maximize efficiency; (2) the **bargaining approach**, which seeks to maximize political support; (3) the **participative decision-making approach**, which seeks to improve decisions by intimately involving those affected by them; and (4) the **public-choice approach**, which attempts to substitute market-like forces for other incentives that, its supporters argue, distort decisions (Table 10.1).

## RATIONAL DECISION MAKING

The most fundamental theory of decision making focuses on rationality: seeking the greatest return for any investment or, more simply, getting the biggest bang for the buck. **Rational decision making** builds on the work of microeconomists, who hold efficiency as the highest value. It seeks to produce the most output for a given level of inputs—or, to use the minimum amount of inputs needed to produce a given amount of output. In short, the goal is to find the most efficient decision. The theory is so simple that it’s easy to understand why it’s become a classic.

### Basic Steps

The rational decision-making approach follows five basic steps:

1. *Define goals.* Rational decision making defines the problem we want to solve and the goal we want to achieve. For example, a policy analyst might seek to determine the best way to reduce automobile accident deaths by 10 percent, reduce costs of garbage collection by 5 percent, or reduce air pollution below dangerous limits.
2. *Identify alternatives.* Once we define the goal, the next step is to identify alternatives for achieving the goal. It might be possible to reduce highway deaths by installing new guard rails, encouraging safer car interiors, or making it impossible to text and drive at the same time.
3. *Calculate the consequences.* We then assess the alternatives by measuring the costs and benefits of each one, in dollar terms. We also consider indirect benefits and costs—often called **externalities** or **spillovers**—that relate to other goals. For example, a highway route that is best in terms of the stated transportation goal may destroy parks and increase downtown traffic congestion.
4. *Decide.* Once the analysis is finished, the decision maker chooses the alternative with the most favorable balance of benefits to costs.
5. *Begin again.* Systems analysis is not a once-and-done process. Instead, analysts see it as an iterative process. Every solution generates the next set of problems, and we always seek to learn from the past.

The rational approach appeals to common sense: any sensible person will choose the most rational (and efficient) route to his or her goal. Who, after all, wants to be irrational?<sup>9</sup>



# RIPPED FROM THE HEADLINES

## Fighting Fraud in Health Care

Theme: Performance

Late June 2016 turned into very bad days for health care providers who had been stealing from the federal government's Medicare program. In a concentrated effort, a multi-agency task force spearheaded by the Department of Justice and the Department of Health and Human Services (HHS) took down three hundred defendants who were charged with more than \$900 million in fraud.

There's no bigger risk to taxpayers than individuals who create schemes to steal taxpayers' money. More than one in ten Medicare dollars, intended to provide medical care for older Americans, goes to improper payments. So the June 2016 arrests—involving pharmacists, physical therapists, nurses, and doctors who had submitted fraudulent bills, engaged in money laundering, and committed bribery—were a very big deal. In one big step, the task force arrested professionals who had improperly received nearly \$1 billion in federal funds.

As Attorney General Loretta Lynch explained, “One group of defendants controlled a network of clinics in Brooklyn that they filled with patients through bribes and kickbacks. These patients then received medically unnecessary treatment, for which the clinic received over \$38 million from Medicare and Medicaid—money that

the conspirators subsequently laundered through more than 15 shell companies.”

How did the feds identify the bad actors and develop strategies to prevent the problems from recurring? Under the leadership of a new information technology team, led by the HHS chief data officer, Caryl Brzymialkiewicz, federal officials developed new strategies of data analytics. They dove into the vast number of transactions in the program, fine-tuned their computers to look for suspicious patterns, and used those patterns to root out fraud. The strategy was a huge step from the painstaking case-by-case checks that investigators used previously. In one big step, data analytics helped to take three hundred criminals off the streets who had perpetrated \$1 billion in fraud. “Data can be the unsung hero,” Brzymialkiewicz explained.

Source: Charles S. Clark, “Interagency Task Force Completes Largest ‘Takedown’ of Medicare Fraud Yet,” *Government Executive* (June 22, 2016), <http://www.govexec.com/management/2016/06/interagency-task-force-completes-largest-takedown-medicare-fraud-yet/129318/>; and Frank Konkel, “Better Data Just Saved Taxpayers \$900 Million in Medicare Fraud,” *Nextgov* (June 23, 2016), <http://www.nextgov.com/big-data/2016/06/better-data-just-saved-taxpayers-900-million-medicare-fraud/129357/>.

## Appraisal

Because the rational approach to decision making seems so straightforward, it has a large following. Decision makers using the rational approach, however, must ensure they get enough good information and sort out competing values. An important part of this process is figuring out what “good enough” means.

**INFORMATION.** Rational decision making requires an extraordinary amount of information. Considering the full range of policy options is, of course, impossible. So, too, is understanding all their benefits and costs. In fact, some critics have argued that the information demands are so intense as to undermine the theory's power. As Charles E. Lindblom, perhaps the method's strongest critic, argues: “Men have always wanted to fly. Was the ambition to undertake unaided flight, devoid of any strategy for achieving it, ever a useful norm or ideal? . . . Achieving impossible feats of synopsis [comprehensive analysis] is a bootless, unproductive ideal.”<sup>10</sup> Moreover, by trying to do the impossible, Lindblom worries, “they fall into worse patterns of analysis and decision.” Even the cost,

in time, energy, and money, of a nearly comprehensive search is extremely high, and the decision maker driven by comprehensiveness can never be sure what has been left out. The goal itself is impossible, the gaps are rarely defined, and the result is an uncharted gap in the analysis whose effects are unknown.<sup>11</sup>

In real life, of course, everyone knows it's impossible to be completely comprehensive. Decision makers instead simplify the process: (1) they screen out the silly options and minor ideas, and they restrict themselves to a few major alternatives, and (2) they stop searching for options when they come upon a satisfactory alternative, even if they believe that further searching might eventually turn up a better one. James G. March and Herbert A. Simon have called this approach **satisficing**.<sup>12</sup>

But that leaves us at a difficult place. If we are going to rely on something less than a full pursuit of rationality, how much is enough? If we're going to satisfice, how much searching is enough? Because, as human beings, we have intellectual limits, the model leaves us little choice. The rational model has great power in its simplicity, but there are big challenges in trying to figure out how best to follow it.

**VALUES.** Rational decision making also depends heavily on the values that decision makers and analysts choose. Because it is impossible to be completely rational, something has to be left out—and the choice of what to include and what to omit is, inevitably, a question of values. That is even more challenging because public administrators face their most difficult and important decisions in exercising discretion within the often-vague laws enacted by legislators. Consequently, rational decision makers are left with two choices: to make their best guess about what the legislature might have intended in passing a law (and risk being told they are wrong when, as is likely, someone disagrees), or to apply their own values in defining the goals (and risk undercutting the very objectivity at the core of rational decision making). In either case, values intrude into a process designed to be rational.

Of course, efficiency is not the *only* goal we seek. Equality, for example, is often a central objective in public programs. In fact, economist Arthur M. Okun calls the job of balancing equality and efficiency “the big tradeoff,” stating that “We can't have our cake of market efficiency and share it equally.”<sup>13</sup> Economist Murray Weidenbaum, who served in the Ronald Reagan administration as chairman of the Council of Economic Advisers, goes even further, observing that

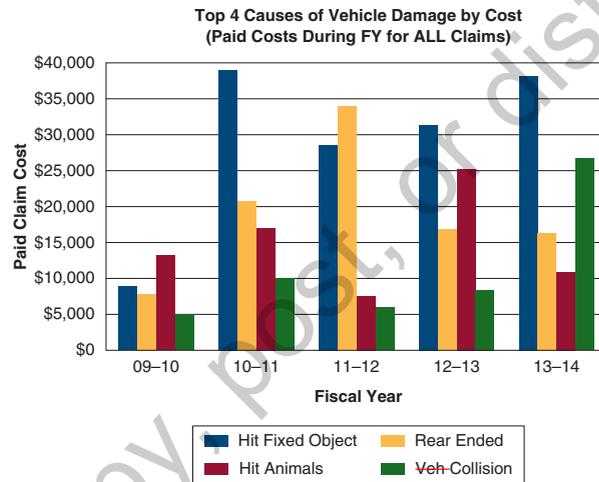
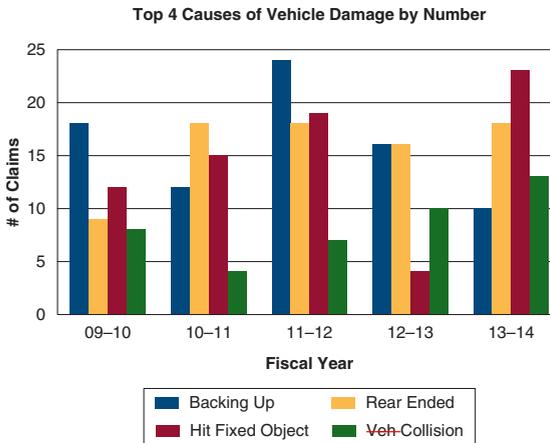
it is possible to develop government investment projects which meet the efficiency criterion (that is, the total benefits exceed the total costs) but which fail to meet the simplest standards of equity. . . . Unfortunately, there has been a tendency on the part of some economists to dismiss such “distributional” questions as subjective and political, and hence not within the proper concern of economic analysis.<sup>14</sup>

The rational approach is thus very attractive because it offers an elegant prescription for how to make the best decisions. In practice, however, this approach inevitably falls short. The elegance often tarnishes in practice. In fact, its advocates sometimes follow rational techniques only as long as it leads to their own personal preferences and feeds their own political ends. Rational decision making is a simple and powerful tool—until it is not.



## Risk Management in Clackamas County, Oregon

Everyone wants the best decisions, but government's actual operations often raise a big collection of thorny questions. Consider these issues that local government officials in Clackamas County faced.



Source: Clackamas County, "Risk Management Report 2014," <http://www.clackamas.us/des/risk2014.html>.

### QUESTIONS

1. These data show accidents for which county employees were at fault in Clackamas County, Oregon. What conclusions do you draw from these data?
2. Are there trends in the data? What might explain any trends?
3. Suppose you were the risk manager for the county. What advice would you give the county executive and department heads about how to reduce accidents that are the fault of county employees?

## PUBLIC CHOICE

Spinning off the rational approach to decision making is a theory of both decisions and bureaucracy based on individuals. This has been labeled as *public choice*, *rational choice*, or *principal-agent theory*. This theory builds on the assumption that individuals are rational. Rational individuals seek to maximize whatever is important to them—what economists call utility. The most rational thing, according to the theory, is to promote one's self-interest.<sup>15</sup>

This theory of decision and bureaucratic action thus begins with the individual. If we can identify individuals' utility functions, we can predict their behavior. Such predictions are often quite sophisticated, including formal mathematical equations. Most often, the models assume

that individuals want to maximize their power, budgets, and autonomy. The theory then builds by arguing that bureaucracy can be understood as a series of relationships between principals (individuals who want to get things done) and agents (individuals who are responsible to the principals for doing them).<sup>16</sup> If we can understand the goals—the utilities—of principals and agents as well as the complexities of their relationships, we can make predictions about how bureaucracies will behave.

As Christopher Pollitt pointed out in 2016, “Maximizing utility/satisfying preferences may sound like a beautifully simple proposition but it is actually very complicated.” Pollitt argues that the following are some of the most important puzzles:

- *Utility.* Determining “utility” often turns out to be deceptively complex. Sometimes it might even include the pursuit of “other-regarding” issues, like altruism and loyalty. But often it focuses on “self-regarding,” including maximizing things that are important to individuals, like income and power.
- *Stability.* The more stable these preferences are, the stronger the rational-choice models are. However, ongoing political battles and individuals’ own circumstances often cause preferences to change. The more they change, the harder it is to make predictions.
- *Effects.* For the model to work, individuals need to be able to make good predictions about what results will come from the decisions they make. In practice, however, it’s very hard to know enough, especially about the turbulent world of politics, to predict what consequences will flow from which decisions. Rational-choice theorists often tackle this problem by assuming limits on information or boundaries around rationality, but that can sacrifice theoretical precision for connection with a bureaucracy’s operations.
- *Tests.* Because it’s hard to know what the preferences of individuals actually are, it’s often very hard to test whether the predictions of the rational-choice approach actually match operating reality.<sup>17</sup>

The public-choice theory has had enormous power. The theory has produced a vast and rich theoretical foundation for understanding the dimensions of public administration. It has helped counter the common critique that public administration is a collection of ideas without rigor. And it has fueled an important reform movement. If government bureaucrats seek to maximize their own power, then the key to improving government programs is to subject more of government to the discipline of private markets, which are designed to promote efficiency. Much of the privatization movement, in fact, flows from the basic assumptions shared with public-choice theory. As Stuart Butler, one of the movement’s strongest voices, put it, **privatization** is a kind of “political guerrilla warfare” that directs demand away from government provision of services and reduces the demand for budget growth.<sup>18</sup>

## Appraisal

Public choice has the great advantage of being a simple approach that leads to straightforward propositions. It’s also led to policy prescriptions—to turn over as many public programs as possible to the private sector and, when that is impossible, to bring private-sector-style competition within the government. When Department of Veterans Affairs (VA) hospitals struggled to reduce the waiting time for appointments, a problem

that exploded into a national crisis in 2014, critics argued that the VA's work ought to be transferred to private hospitals and clinics.<sup>19</sup> But underlying these debates are important issues about information and values.

**INFORMATION.** The attractiveness of the public-choice approach lies in its embrace of the market. As Pollitt points out, however, the approach also depends on information, and there are three problems in obtaining the information needed. One is **information asymmetry**. In complex systems, it is inevitable that some people will know more than others, and it's likely that subordinates (agents) will know more than their superiors (principals). Those working the day-to-day operations of government programs will almost always have better frontline information than those designing the programs. That can lead to **adverse selection**, where supervisors' decisions are not as good as they would be if the supervisors had better information. This can also produce a **moral hazard** problem. If supervisors cannot know enough about what their subordinates are doing, this can lead subordinates to do things that don't match the supervisors' goals. That, in turn, can allow the administration of government programs to drift off course, without the supervisors knowing it until small problems explode into big crises.

This constellation of issues can also lead to big policy problems. Many of the lending issues at the core of the 2008 financial crisis stemmed from information asymmetry and moral hazard. Some lenders engaged in unsafe practices, like providing mortgages for more than the home's worth to people who couldn't pay them back. Government regulators lacked enough information to determine what was happening until it was too late—and some lenders who made these loans were able to pass the costs off to others. The tangled story was captured in the 2015 movie, *The Big Short*, which won an Oscar for its screenwriters.

**VALUES.** Critics have long argued that the simple assumptions of public-choice theory don't capture reality. As Steven Kelman contends, this approach is a caricature:

It ignores the ability of ideas to defeat interests, and the role that public spirit plays in motivating the behavior of participants in the political process. The “public choice” argument is far worse than simply descriptively inaccurate. Achieving good public policy, I believe, requires . . . a norm of public spiritedness in the political action—a view that people should not simply be selfish in their political behavior. . . . The public choice school is part of the assault on this norm.<sup>20</sup>

The approach unquestionably has helped advance the theory of public administration. But it's proven more troublesome in providing prescriptions for government reform. Relying more on markets has brought a new collection of problems to government, as we will see in Chapter 12. Furthermore, the approach undervalues the power of public ideas and the public interest: the concept that some things are good for all of us and that decision makers seek to achieve those things.<sup>21</sup>

## BARGAINING

An alternative to the rational approach to decision making is bargaining. Charles E. Lindblom argued that the rational approach is paradoxically less rational—and that it is

more rational to bargain over a decision that can attract political support. Lindblom offers a simple prescription for the analysis of public decisions: incrementalism.<sup>22</sup> It is best, he says, to limit that analysis to a few alternatives instead of trying to judge them all; to weigh one's values along with the evidence instead of holding them separate, as the rational approach would suggest; and to concentrate on the immediate problems to be solved rather than the broader goals to be achieved. The great goals are almost always beyond reach, especially in the short run, and problems presented in smaller chunks are easier to define, diagnose, and solve. Furthermore, it is easier to build support for a series of incremental changes from the current situation and to correct any errors that might creep in.<sup>23</sup>

Decisions thus emerge as the product of bargains. In the bargaining game, the perspective of each player is shaped by the player's position: "where you stand depends on where you sit," as the saying goes.<sup>24</sup> Who wins depends on who has the strongest hand and who bargains most effectively.<sup>25</sup>

## Appraisal

The bargaining approach has drawn withering fire from its critics, especially among proponents of the rational approach.

**INFORMATION.** Critics contend that the bargaining approach is dangerously incomplete and risks depriving decision makers of important information.<sup>26</sup> The political process, they contend, can be counted on to present decision makers with political opinions, but it is far less useful in identifying which alternatives are likely to be the most efficient. The result, critics suggest, is that scarce resources can be wasted. When money is tight, bargaining over public programs might produce common ground only by spreading money among the combatants. One economist, Charles Schultze, acknowledged that "it may, indeed, be necessary to guard against the naïveté of the systems analyst who ignores political constraints and believes that efficiency alone produces virtue." But in taking aim at the incrementalists, he concludes, "it is equally necessary to guard against the naïveté of the decision maker who ignores resource constraints and believes that virtue alone produces efficiency."<sup>27</sup> It is possible, Schultze argues, to take account of political realities while doing systems analysis.

Lindblom replies that systems analysis cannot be done and argues that his decision-making approach is indeed analysis. He suggests instead that limited, successive comparisons are better than trying to be comprehensive. The bargaining approach, however, does not really tell the analyst just how comprehensive to be and how much analysis to do. How large should an increment be? How many alternatives should a decision maker consider? The only answer is a circular one: the increments should be small enough and the alternatives few enough to produce political consensus. A decision maker knows that the approach is right if a consensus forms and wrong if it does not. While this formula may offer a useful description of many decisions, it provides a weak guide for officials trying to design a decision-making process.

**VALUES.** The bargaining approach is obviously at its strongest in *describing* how decisions are made and how decision makers build political support for their judgments. The political strength of different players in this approach, however, varies greatly, so some players have a



As tensions with the Soviet Union escalated in 1962, President John F. Kennedy met with his brother, Attorney General Robert F. Kennedy, on the portico outside the Oval Office. The government's decision-making strategies during that month's Cuban missile crisis became a much-studied case of how—and how not—to frame governmental policy.

far stronger advantage than others. Moreover, when insiders bargain over their differences, it is easy for the broad public interest to be forgotten. Those who follow an issue closely can shape decisions before the general public even knows that a major decision is on the table. Interests with enough money can have a disproportionate say in these decisions.

Bargaining thus provides a useful description of how many, but not all, administrative decisions are made. There are reasons why it can provide a useful model of how they should be made. But the playing field is never level: not everyone is represented equally around the table, and some interests may not even be invited. Nevertheless, the approach is important: it asserts the importance of values in decision making, in stark contrast with the rational model.

## PARTICIPATIVE DECISION MAKING

Beyond the theory of incrementalism is another approach even more based on politics: involving those most affected by policy decisions in the process of making them. Who, after all, is most likely to know better what the best decision looks like? But this simple principle raises a host of questions.

First, what does *participation* mean? It may mean being consulted for advice by someone who has power to make a decision, or it may mean sharing decision-making power, as when those affected vote on a proposed decision and their vote settles whether the proposal is adopted or rejected. Second, just who should be entitled to participate in decision making? Four groups can make claims: (1) the employees of the organization making the decision; (2) the persons whom the organization serves or regulates (the clientele); (3) the taxpayers whose pocketbooks the decision will affect; and (4) the whole public, or at least the voting public.

Who could object to having the decisions be enlightened by the views of those who have to live with them? The problem, of course, is insiders often have different views than either policy makers or citizens. Moreover, there are often strong pressures to keep noisy, dangerous, or otherwise contentious programs “not in my backyard,” or **NIMBY**, for short. Many citizens might resist having a drug treatment center located in their neighborhood, for example. And it can work in reverse. When shrinking populations leave neighborhoods with more schools or fire stations than makes economic sense, residents often fight to keep them, as Detroit's leaders found out.

With the rise of social media, many governments have created blogs and have conducted quick, if unscientific, online polls through tools like SurveyMonkey. Twitter and Facebook have quickly become governmental institutions, as public officials work to keep up with the torrent of virtual communication. More traditional neighborhood forums, like actual town hall meetings, continue to flourish. Nearly everyone finds these processes valuable, and nearly everyone has a way to participate in some form or another. The lasting question is what impact universal

In many communities, like Washington, D.C., advisory councils work on issues affecting their neighborhoods. These local governments consider a variety of policies and programs, like parking, trash collection, zoning, and street improvements.

participation has on decision making—and how this participation might improve the quality of the decisions made.

## Appraisal

Since the mid-1970s, complaints have grown about too much decentralization to citizen groups. The trend gradually has been to centralize control and put more decision-making responsibility in the hands of elected officials. This trend underlines the recurring dilemmas of participative decision making.

**INFORMATION.** Few insights into the management of public programs are better than those of the persons who must administer them, and few observers of any program's effects have keener insights than the citizens most affected by them. The very wealth of this information is a problem, however, because it typically flows to decision makers as a large, undifferentiated mass, with no easy clues about which information is most important. Too much information can sometimes be as bad as too little. That can encourage decision makers to see only what they want to see.

**VALUES.** In sorting through the vast amount of information that the participative approach produces, decision makers must also confront important value questions. The approach spawns these recurring dilemmas:

1. *Self-interest versus no interest:* whether to serve a narrow clientele dedicated to protection of its own self-interest or a broad, mixed clientele with a less keen interest in the policy



Students at a Denver elementary school made signs to protest cuts in funding for local schools. Reductions in spending led teachers and students to furlough days, in an effort to save money.

2. *Too much versus too little representation:* whether to allow direct participation in decision making by all members of the clientele who wish to participate—at the risk of assembling an impossibly large group to deal with—or direct participation only by those who get appointed or elected to committees, councils, or boards that are officially assumed to represent the clientele—but that may not be very representative
3. *Too much versus too little power:* whether to give formal or informal power to citizens for making governmental decisions—raising the problem of who looks out for the public interest—or have them simply provide advice (and demands) to public administrators who weigh those views with other considerations and make the actual decisions—but who may not take that advice seriously

These tradeoffs are hard, but they have big implications for responsive and effective policy-making. On the one hand, participative decision making has led to new public access to governmental decisions and to the creation of a new cadre of civic leaders. On the other hand, the system has created some avenues of patronage and new officials seeking to protect their own positions. The record is mixed.<sup>28</sup>

## LIMITS ON DECISION MAKING

From this discussion, it is clear that no one approach offers a solution to the problems of making administrative decisions. Each approach has its own special virtues and its own idiosyncratic problems. Every approach, though, shares the fundamental complication that

administrative decisions, after all, are made by collections of human beings, each of whom operates in a large organization full of complex pressures, contradictory information, and diverse advice. Even the theories of satisficing and incrementalism do not fully take account of the psychological environment in which government executives must operate. James Webb, who served for eight years as a NASA administrator, described the problem well:

Executives within . . . a large-scale endeavor . . . have to work under unusual circumstances and in unusual ways. . . . The executive trained only in . . . traditional principles, able to operate only in accord with them and uncomfortable in their absence, would be of little use and could expect little satisfaction in a large complex endeavor. So too would the executive who has to be psychologically coddled in the fashion that the participative school of management advocates.

In the large-scale endeavor the man himself must also be unusual; he must be knowledgeable in sound management doctrine and practice, but able to do a job without an exact definition of what it is or how it should be done; a man who can work effectively when lines of command crisscross and move in several directions rather than straight up and down; one who can work effectively in an unstable environment and can live with uncertainty and a high degree of personal insecurity; one willing to work for less of a monetary reward than he could insist on elsewhere; one who can blend public and private interests in organized participation for the benefit of both.<sup>29</sup>

Two social psychologists, Irving Janis and Leon Mann, make the point more poignantly. They see the human being “not as a cold fish but as a warm-blooded mammal,” one “beset by conflict, doubts, and worry, struggling with incongruous longings, antipathies, and loyalties, and seeking relief by procrastination, rationalizing, or denying responsibility for his own choices.”<sup>30</sup> All approaches to decision making share problems: the enormous uncertainty surrounding complex issues, bureaucratic pathologies that distort and block the flow of important information, and recurrent crises that deny the luxury of lengthy consideration.

## Uncertainty

It is easy to underestimate how difficult it is for decision makers to know what results their decisions will produce, or even to get good information about the current state of the world. Congress, for example, has charged the Federal Reserve with making monetary policy, but it is deceptively difficult even to decide just what “money” is.<sup>31</sup> The Fed has developed various measures of money—including cash, checking accounts, savings accounts, and long-term certificates of deposit—but these measures have been changed over the years as Americans’ banking practices have changed. To make things worse, the supply of money is really only an estimate, subject to constant revision.

Other important economic statistics share the same problems. It often takes months to get good numbers on the growth of the economy or the rate of inflation. What initially seemed to be good months can sometimes become bad months as more data emerge. Furthermore, it is sometimes hard to interpret the numbers: is high economic growth, for instance, a sign of a healthy economy or of an inflationary trend that is starting to take off? There are lots of numbers, but Fed officials constantly struggle to obtain good, reliable,

up-to-date information about the true state of the economy. Even worse, there are very few reliable models about what figures from the past may signal for the economy's future. Even if Fed officials could determine the health of the economy and where it is headed, it is even more difficult to determine how—and when—best to use its tools to steer the economy in a different direction. Moreover, even before the home mortgage market meltdown in 2007 and 2008, some analysts had predicted the impending collapse. Determining what to do, who should do it, and when to act, however, proved impossible—until the collapse forced the regulators' hands.

With increasing frequency, in areas ranging from space exploration to homeland security and from new telephone technologies to the risk of new diseases, decision makers must tackle issues on the edge of current knowledge, where experts disagree and the road ahead is uncertain. Indeed, risk is the first cousin to uncertainty, and the cost of being wrong can sometimes be catastrophic (as, for instance, in judging the risk of exposure to known cancer-causing chemicals).<sup>32</sup> Apart from political pressures, this uncertainty makes any one approach to decision making an inadequate guide—and the risk is all the more hazardous because many decisions, once made, are irreversible and offer no opportunity for the feedback and correction assumed in both the rational and bargaining approaches.

Despite uncertainty, decision makers ultimately must make decisions, from which there is no going back. That, in fact, is the lesson of Julius Caesar at the Rubicon River. Roman law forbade him from bringing his army back into Rome, for the Romans knew that armed emperors would be impossible to resist, and the Rubicon was the boundary. But as Caesar returned to Rome after a successful military campaign in 49 B.C., he decided to challenge the law and Rome's rulers. Once he crossed the boundary, the Rubicon River, with his army, conflict was inevitable. As Plutarch writes:

[Caesar] wavered much in his mind . . . often changed his opinion one way and the other . . . discussed the matter with his friends who were about him . . . computing how many calamities his passing that river would bring upon mankind and what relation of it would be transmitted to posterity. At last, in a sort of passion, casting aside calculation, and abandoning himself to what might come, and using the proverb frequently in their mouths who enter upon dangerous and bold attempts, "The die is cast," with these words he took the river.<sup>33</sup>

In an age in which a detection system may incorrectly report an enemy's launching of an atomic attack, the few minutes afforded for decision on whether to launch a counterattack permit little computation and calculation, yet the decision is irreversible. The die will have been cast. (It's an old dilemma. The "die is cast" phrase actually comes from Julius Caesar. Roman generals were forbidden from bringing their armies into Rome. He decided to do so anyway and, once he made the move there was no going back.)

Many decisions less momentous for the world are irreversible, or substantially so: drafting an individual into military service and assignment to a war zone, withholding of a license to practice a profession or operate a business, denial of a loan to prevent bankruptcy of a business or farm, refusal of a pardon to a prisoner scheduled for execution. Decisions often have a stubborn finality for those who suffer loss or risk of life and for those whose livelihoods are impaired. A decision maker doesn't know what results a decision will produce, and the burden of uncertainty weighs all the heavier on decisions that are irreversible.

## Information Pathologies

The very structure of bureaucracy, furthermore, can distort the flow of information as it moves upward through the organization. Not all information collected at the bottom, of course, can be passed along to officials at the top—they would quickly become overwhelmed and uncertain about what is actually happening. Therefore, information must be condensed at each bureaucratic level. The process of *condensation*, however, often leads to *filtering*. Public officials, not surprisingly, tend to pass along the good news and suppress the bad. At best, this tendency can distort the information flow; at worst, it can completely block early warnings about emerging problems. Furthermore, officials' own professional training can attune them to some kinds of information more than others. An engineer, even one who has assumed a general managerial position, still may attend more carefully to engineering problems than to others that might be more pressing.<sup>34</sup>

Sometimes these information pathologies create continuing, nagging problems. In the Peace Corps, one former official discovered, "Training was usually inadequate in language, culture, and technical skills. Volunteers were selected who were not suited to their assignments." But upper-level officials were usually kept in the dark about this problem, he explained, because lower-level officials often worked "to prevent information, particularly of an unpleasant character, from rising to the top of the agency, where it may produce results unpleasant to the lower ranks."<sup>35</sup>

Sometimes these pathologies cause disasters. On the night before NASA's launch of the space shuttle *Challenger* in January 1986, for example, engineers for one NASA contractor argued furiously that the cold weather predicted for the launch site the next morning could be dangerous. Mid-level NASA managers rejected the advice and refused to pass it on to top launch officials. The engineers, however, proved tragically good prophets, and the shuttle exploded seventy-three seconds into the flight. Officials with the responsibility for giving the "go" for the launch did not learn about the worries the engineers had expressed that night until the investigation into the disaster began.<sup>36</sup> When the *Columbia* disintegrated on reentry in 2003, officials later discovered that similar worries expressed by engineers had never been communicated to top agency officials.<sup>37</sup>

Decision makers obviously cannot make good decisions without the right information, so they often create devices to avoid the pathologies. They can rely on outside sources, ranging from newspapers to advice from external experts. They can apply a counterbias, using their past knowledge about information sources to judge the reliability of the facts they receive. They can bypass hierarchical levels and go right to the source; some management experts, in fact, advocate "management by walking around," getting the manager out from behind the desk and onto the frontlines to avoid the "nobody ever tells me anything" problem.<sup>38</sup> They can develop precoded forms that avoid distortion as the forms move up through the ranks.<sup>39</sup> Many governmental forms and much red tape, in fact, are designed precisely to prevent uncertainty from creeping into the process ("what information should I pass along?") even if it creates additional headaches for administrators and citizens.

Nevertheless, attempts to rid the information chain of these pathologies can, paradoxically, create new problems:

- Improvements in incoming information may clog internal channels of information.
- Increasing the amount of information flow to decision makers and attempting to eliminate the fragmented features of decision making may simply overload top officials.
- Greater clarity and detail in the wording of decisions may overwhelm implementing officials.<sup>40</sup>

These paradoxes paint a disturbing but very real picture. Administrators are scarcely defenseless, however, because the problem often is not having too little information but having too much—and then trying to sort through it all to find the right combination of facts on which to make decisions. In fact, top NASA officials had been informed earlier of the problem that caused the *Challenger* disaster, “but always in a way that didn’t communicate the seriousness of the problem,” a House committee found.<sup>41</sup> Later, the same lack of urgency surfaced again to claim a second shuttle. The key to resolving such problems of information management is redundancy: creating multiple sources of feedback that allow decision makers to blend competing pieces of information together into a more coherent picture—without wasting scarce resources on too much redundant information. Determining how much is just right is one of the hardest tasks that decision makers must face.

## Crisis

Crises often precipitate decisions. The deaths of 119 men and 78 men in mine explosions in 1951 and 1968 led to the passage of national coal mine safety acts in 1952 and 1969, respectively. Catastrophic floods have time after time broken logjams that had obstructed major changes in national flood-control policy.<sup>42</sup> A 1979 accident in a Pennsylvania nuclear reactor, Three Mile Island, threatened the population for miles around and stimulated a fundamental reconsideration of governmental policy toward the nuclear power industry. The 2011 crisis at Japan’s nuclear reactors rekindled all those debates. The *Challenger* explosion sped up redesign of the booster rocket and produced plans for a new emergency escape system, while the *Columbia* accident led to new launch procedures and improvements of many parts of the space shuttle. And Superstorm Sandy’s horrific assault in late 2012 on the northeast prompted a fundamental rethinking of the nation’s infrastructure and its zoning policies in flood plains.<sup>43</sup>

In addition to upsetting the normal sequences of decision making, crises increase the difficulty of many potential strategies: the comprehensive analyses that rational decision making requires, the trial and error of bargaining, the consultation of participative decision making, and the reliance on the private sector of public choice. Crises worsen uncertainty, especially in areas of technological complexity. Most important, they highlight an issue of decision making that is not well considered in most approaches: in the end, the public official is responsible for ascertaining and ensuring the public interest—a duty that always proves difficult.

Crises can be managed. In the private sector, the manufacturers of Tylenol were widely hailed for their aggressive action in dealing with the poisoning of their capsules in 1982. Furthermore, Irving L. Janis argues, “vigilant problem solving” can reduce the risks of crises, as managers aggressively seek to formulate the problem, collect available information, reformulate the situation, and frame the best options.<sup>44</sup> When Pennsylvania Governor Richard Thornburgh faced the potential of a nuclear disaster during the Three Mile Island nuclear power plant crisis in 1979, he had to follow precisely these steps in finding his way. Nevertheless, the sudden appearance of the unexpected coupled with high risk for wrong decisions poses enormous problems for decision makers.

## MANAGING RISK

No matter how hard administrators try to make good decisions, problems can arise. Sometimes that’s because administrators make the *wrong* decisions. That was the case with the Flint water system, where technical mistakes ended up poisoning citizens. Yet

**Table 10.1** Approaches to Decision Making

Approach	Information	Values
Rational	Collect comprehensive information to maximize rationality	Are assumed
Public choice	Use self-policing forces of the market	Use self-interest of players
Bargaining	Limited	Are struggled over
Participative	Acquired through those affected by decision	Focus on clients' values

sometimes it's because problems pile up behind the scenes, either because administrators never see them coming or because they don't have the capacity to solve them. Much of government consists of doing hard things. Hard things bring risks. And risks can create big costs.

Avoiding—or minimizing—those costs is the challenge of **risk management**. But we need to be frank. Most people, including many experienced professionals inside big agencies, find it boring. Risk management is often ignored or, when organizations do pay attention to it, is an afterthought toward the end of meetings, when participants find their minds drifting off to other problems. That, however, is a huge mistake. Disasters destroyed two NASA space shuttles, the *Challenger* in 1986 and the *Columbia* in 2003. Hurricane Katrina devastated the Gulf Coast in 2005. Neither the federal, state, nor local governments were prepared to respond. In 2010, a massive explosion on the *Deepwater Horizon*, an oil-drilling platform in the Gulf of Mexico, killed eleven workers, spilled tens of millions of gallons of oil, and caused billions of dollars in damage. (The story became a major movie in the fall of 2016.) The basic questions of risk management are as follows: Can we do a better job of anticipating such problems? Can we either prevent them or improve our ability to respond? And, more broadly, can better managing such large-scale risks improve the overall performance of government?

Many risks are *external* to the organization. They can range from cyberattacks to an aging workforce. Other risks are *internal*, such as inadequate financial controls or employee training. External and internal risks can combine to create a wide range of costs to organizations: *hazards*, such as fire and theft; *finances*, including cost overruns and credit damage; *operations*, including poor service and cybersecurity breaches; *strategy*, including shifting demographics and technology; and *reputation*, including perceptions of government mismanagement (see Table 10.2). These are all big problems. The challenge, Stephan Braig, Biniam Gebre, and Andrew Sellgren point out, is this: “By its nature, risk management comes under scrutiny only when it fails.”<sup>45</sup> Needless to say, that kind of failure is bad—but if it truly were needless to say, the failures would not recur. Government needs a more effective risk management strategy.

## Steps toward Effective Risk Management

What would such a system look like? A careful study of risk management by McKinsey in 2011 suggested five steps. Let's consider those steps and their broader implications.<sup>46</sup>

1. *Establish transparency.* Managing risks first requires understanding them. Organization managers need to begin by exploring and identifying the risks that could affect their

**Table 10.2** Examples of Risks that Organizations Face

## Examples of Types of External and Internal Risks Organizations Face

**Hazard risks**, such as:

- Liability suits (e.g., operational, products, environmental)
- Fire and other property damage
- Theft and other crime

**Financial risks**, such as:

- Price (e.g., interest rate, commodity)
- Liquidity (e.g., cash flow, opportunity costs)
- Credit (e.g., default by borrowers)

**Operational risks**, such as:

- Customer service
- Succession planning
- Cyber security

**Strategic risks**, such as:

- Demographic and social/cultural trends
- Technology innovations
- Political trends

**Reputational risks**, such as:

- Procedural and policy mistakes by staff
- Perceptions of misuse of government resources
- Fraud or contract mismanagement

Source: Douglas W. Webster and Thomas H. Stanton, *Improving Government Decision Making through Enterprise Risk Management* (Washington, D.C.: IBM Center for the Business of Government, 2015), p. 6, <http://www.businessofgovernment.org/sites/default/files/Improving%20Government%20Decision%20Making%20through%20Enterprise%20Risk%20Management.pdf>.

performance. They need to understand which risks matter most. And they need to communicate them, both internally (to other members of the organization) and externally (to key stakeholders, including those affected by the risks, like citizens, and those who make policy about the risks, like legislators and elected executives). The biggest consequences often come from risks that organizations don't anticipate—or risks they recognize but whose implications they don't fully grasp. The failure of a simple rubber insulation ring caused the explosion of the space shuttle *Challenger*. Engineers understood that the ring was not as flexible in colder weather. But neither they nor launch officials fully understood that temperatures below freezing could cause the ring to fail. The lack of transparency—their inability to see the risks and its implications—proved catastrophic.

2. *Create a risk constitution.* Once organization managers understand risks, as well as they can, they need to understand who is in charge of them. The McKinsey authors call this a “risk constitution.” Which risks should managers decide that they “own,” that they are responsible for understanding and solving? Which risks should they work to transfer to others? What capacity do they need to deal with the risks in their portfolio? The key is to understand that someone must be responsible for every risk that matters, and that each person responsible must have the capacity to deal with it. It does no good to see a problem and to assume that someone else will solve it.

3. *Change what matters most.* A risky part of risk management is trying to fix *everything* connected with the underlying risk. Not only is that impossible. It can also undermine support for the risk management approach, since the more change it imposes, the more resistance it will generate. But, as the McKinsey team suggests, some fundamental processes are likely to be far more important than others in reducing the risks an organization faces. Identifying those core processes, and fixing them first, can substantially shrink risk. In many

cities, busy intersections near fire stations can increase the response time. Some cities have installed special systems on traffic lights at those intersections to turn them green until the firefighters have passed. That way they're not sitting in traffic as they've barely pulled out of the station.

4. *Make every risk management issue someone's business.* One lesson is that risk management must be everyone's business. But it's often the case that if something is everyone's job, it becomes no one's job—especially if stakeholders see the process as getting in the way of the day-to-day activities of their core mission. To be effective, risk management must be the concentrated focus for a unit within the government, both to make sure it's on everyone's agenda and to deal with the inevitable risks that cross over multiple organizations within the government. No one wants to see released prisoners return to jail. But ensuring that they don't return requires coordinated work by parole officers, job training programs, housing and welfare programs, and medical programs—a network of services to help released prisoners cope with and solve the often-difficult challenges they face, which often led them to prison to begin with.

5. *Build a risk culture.* Risk management is one of those organizational principles that attracts broad agreement and, sometimes, little action. Managers can easily come to see it as an add-on to their job, instead of a core part of it. In practice, risk management rarely works well unless it becomes part of everyone's business—part of the organization's culture. That, of course, lies at the core of local policing and Air Force pilots. They know that every time they go to work, they face life-and-death risks, and they do all they can to manage them, from checking their gear to maintaining constant awareness of their circumstances. Risk surrounds the work of most government employees—often not life or death, but important nonetheless, ranging from effective snow removal, to avoid putting drivers at risk, to processing Social Security payments, to ensure that retirees can pay their bills.

In this light, risk management isn't quite so boring after all. We create government programs, after all, because we collectively decide that we want to do something important. If we fail to do it—or fail to do it well—we not only waste money and often put lives on the line. We also undermine the faith and trust of citizens in their government. Risk management thus is about both organizational change and organizational fidelity: how to make public administration work as we expect.

## Overcoming Barriers to Risk Management

If risk management is so important, why is it so hard? There are several reasons.

First, it's often difficult to sustain the attention of top managers.<sup>47</sup> So many big issues—both policy debates and immediate crises—crowd the desks of senior executives. It's little wonder that they spend their days fighting what's at the top of the list. However, what's most urgent isn't always the most important. The riskiest thing about risk management is that failures are often huge—and top managers never see them coming. It takes an effective risk management system to ensure the organization can prevent big problems or minimize their costs. Top managers might not spend a lot of time doing risk management themselves, but they need to spend enough time on it to make sure it gets done.

Second, organizational fragmentation can prevent a broad view. Analysts often see this as the result of organizational “silos”—tall structures often unconnected with the rest of the bureaucracy. Risks, however, often flow across government programs and organizations, and that makes it even harder for administrators to manage them. Moreover, as we will see in Chapter 12, some of government’s most important risks flow from programs that cross organizational boundaries. It’s especially easy, in such programs, for government’s managers to violate the fourth principle above—making every risk management issue someone’s business—because it’s especially easy for managers to assume that someone else will be taking care of a problem. That often means no one is taking care of it—and risks can escalate.

Third, transparency on risks means identifying opportunities for political attack. Identifying risks—things that could go wrong—can open administrators up to political attack. Legislators and reporters can single out such problems and press on what more isn’t being done to get ready for problems. If problems occur—and, in complicated programs, problems are inevitable—a paper trail documenting known risks in advance is sure to draw fierce fire. If administrators knew about the problem, why didn’t they fix it when there was time? That was an especially important argument after Hurricane Katrina struck. After all, experts for years had warned that a big storm could swamp New Orleans. After Katrina hit, they asked why the city wasn’t better prepared. One way to avoid such after-the-fact attacks is to ensure there is no paper trail to be found. Minimizing risk management means there is no risk analysis to be discovered later. That, of course, only ensures that the problems of risk grow even greater.

These puzzles get to the core of the problem of accountability, to which we’ll return in Chapter 14. There is *always* politics in public administration, and competing political forces will *always* look for political advantage in any circumstance. The bigger the stakes, the more they’re likely to seek bigger political advantage. In many ways, therefore, the biggest risk of risk management is that those inside the system will conclude that it’s just too risky: that it unnecessarily exposes them to additional political attacks. However, as we saw at the beginning of Chapter 1, failing to consider the risks and consequences of big decisions can lead to enormous, even catastrophic, results. The Flint water crisis became a crisis because government officials made decisions without carefully exploring the possibilities and what could have been done to avoid them. When problems began appearing, they were blind to the risks and caught flat-footed in responding. Only when the problems began having catastrophic consequences for children did the government respond. This was a case where the risks were knowable in advance and discoverable along the way. The failure to look for—and act on—them made the problems worse: the political impact on government officials and the personal health for the citizens. That is as strong a case for risk management as one could imagine.

## CONCLUSION

We have examined several approaches to administrative decision making: rational analysis, public choice, bargaining, and participative. Though in some measure all of these

approaches have been put into practice, they all are expressions of theories—full of assumptions—which have tended to harden into dogmas. They also offer, as Table 10.1 shows, a wide range of tactics for dealing with the lasting problems of information and values.

The approaches share, in varying degrees, certain basic defects. This chapter discussed some oversights, especially uncertainty, information pathologies, and crisis, but there are others, such as how a problem or a need for a decision is discovered, formulated, and put on the agenda (most approaches start with a known and stated problem or need). Furthermore, nondecision—the decision not to decide or the avoidance of an issue altogether, whether conscious or unconscious—often has consequences as great as those of a decision itself. When senior Bush administration officials received the President’s Daily Brief on August 6, 2001, that warned, “Bin Laden Determined to Strike in U.S.,” no one took action. The brief was unclear about how or when, and it wasn’t clear from the brief what the administration could or should do. But this was a case where a nondecision had catastrophic consequences just a month later.

More basic are two problems. First, each approach tends to focus on a single value, such as the focus of economists on efficiency in systems analysis, the attention of public choice advocates on private-sector competition, incrementalists’ dedication to maximizing participation, and participative managers’ commitment to full public voice in decisions. These are all important values. However, any approach focused on just one of them is sure to be inadequate for the complex reality of the political world.

Second, it can be difficult to understand what is required to make an approach succeed. Sometimes, as in systems analysis, the conditions may not exist in the real world, and the theorists do not explain very well how to adapt their approaches to reality. Often, however, the adaptations may drain the approach of its power. For example, attempts to adapt the rational decision-making approach by trying to absorb elusive policy goals, the shortage of sufficient quantitative data, the distortion that inevitably comes from converting qualitative goals or accomplishments into measurable terms, and the behavior of members of Congress may lead to so truncated a version of the rational approach that it is less useful than, say, the more reality-oriented incremental approach.

It is possible, of course, to identify which approaches work best for which problems.<sup>48</sup> The rational approach, for example, tends to work better for issues with clear objectives, quantitative measures, and minimal political pressures. However, even if we can somehow determine which approaches best fit which problems—itsself a very tall order—we are left with the puzzle of how to put these different tactical systems to work as a coherent whole. These problems, of course, become even greater when put in the context of risk—programming and political—that always surrounds the tough questions of public administration.

Those puzzles come into the sharpest focus in the budgetary process, which we examine in Chapter 11. As the government’s system-wide decision-making process, budgeting raises the difficult issues of how best to deal with the conflicting pressures toward comprehensive planning and incremental politics that lie at the core of decision making. Theorists and public officials alike have long struggled to manage an elusive marriage between the two so as to capture the value of each while avoiding the flaws of both.



## CASE 10.1

### Baltimore Battles the Banks

In 2012, Baltimore Mayor Stephanie Rawlings-Blake publicly savaged international bankers for taking money out of the pockets of city residents. The bankers, she told reporters, “are pretty much playing fast and loose with the people they are meant to protect.” She added, “We are not afraid of a fight.”

How did a mayor of a medium-sized city end up dueling with giant banks like Barclays, Bank of America, Citigroup, HSBC, JPMorgan Chase, and UBS? Like many state and local governments, Baltimore invested its cash in complex financial instruments, including interest-rate swaps. Rawlings-Blake and other litigants in a federal lawsuit charged that the banks set interest rates artificially low, which cut governments’ investment returns and led to bigger spending cuts. No politician likes to slash programs or raise taxes. Politicians hate to discover they had to do so more than might have been necessary.

Because many state and local governments borrow at floating rates, investment returns can be highly unpredictable. So to smooth out the highs and lows, financial managers trade the floating bonds for fixed-rate investments. Most of the rates for floating bonds and swaps are pegged to “Libor,” the London Interbank Offered Rate. Insiders know it as BBA Libor (for British Bankers’ Association Libor), the product of a daily survey among bankers about the rates banks can get in the London market at 11 a.m. every business day, across a range of maturities. They toss out the highest and lowest rates, and the average of what’s left determines the interest rates that just about everyone pays for just about everything. In fact, anyone can follow the results on Twitter: @BBALIBOR.

This is rather arcane stuff, but it worked well through gentlemen’s agreements for decades until July 2012. In both the United States and the United Kingdom, government regulators found that traders working for one of London’s most respected banks, Barclays, had been playing Libor games by misrepresenting the rates. Soon government regulators in Canada and Switzerland joined in the investigation, which spread to sixteen banks, including Bank of America, Citigroup, and JPMorgan Chase in the United States. Fallout quickly ensued when Barclays’ high-flying chairman Marcus Agius was forced to resign.

The regulators probed whether the banks had colluded to keep interest rates artificially low, in part to make money on trades and in part to convey the impression that, even in the financial meltdown, they remained solid companies. (The riskier the company, the higher the rates it would have to pay. So lower rates both helped banks play the market better and signaled a rosy corporate picture.)

That takes us back to Baltimore and a quickly growing list of state and local governments filing legal action. Their claim: By artificially driving Libor down, the banks cheated them out of enormous investment returns at a time when their budgets were already badly damaged from the Great Recession and when every dollar of investment income was a dollar of services that didn’t have to be cut.

The Libor scandal has exploded across the global financial scene. It’s already cost the jobs of top bankers and has dragged many of the world’s leading banks into a very harsh spotlight, just as they were trying to make the case for the return of financial stability. Mad-as-hell government officials, who concluded they slashed spending more than was necessary, are seeking compensation and retribution. Moreover, many state and local investment officials holding bonds with variable rates converted them to interest-rate swaps to stabilize their returns, but now they can’t get out of them because in many cases the penalties are too high. So not only are their investment returns lower than they should be—they’re stuck with them.

Perhaps most fundamentally, the foundations of much they had taken for granted have been shaken. It turns out that the key benchmark for most interest rates around the world was Libor, and that Libor wasn’t the actual rates bankers charged but estimates that could be gamed. As blogger Darwin Bond-Graham sharply put it, “Libor was always a club of powerful banks inventing the price of money,” and with Agius’s resignation, the workings of that club came under investigation, including the threat of criminal rate-fixing charges. According to one government official, “It’s hard to imagine a bigger case than Libor.”

That all leads to two final questions. First, why didn’t the feds step in sooner to help protect state and local governments? The Treasury had detected the problem a few years earlier and even managed to extract a \$450 million settlement from Barclays. Some state and local officials have complained that federal regulators were not riding shotgun for them.

Second, how much of the problem came from state and local investment officials putting money into instruments whose risks they didn’t really understand? As Jeffrey Gibbs, director of special investigations for Pennsylvania’s auditor general, put it, swaps, derivatives, and other complex financial instruments are typically understood only by the people who sell them. It’s another searing lesson of the risks of governing in a globalized world, with state and local leaders forced to navigate through seas they can’t control and sometimes can’t even see.

## QUESTIONS TO CONSIDER

1. What lessons does Baltimore's Libor experience teach? What would you advise the mayor of your community about how to make decisions on such investments?
2. An important question about modern budgeting and complex financial instruments is the last point: only the people who sell them (and, sometimes, not even the salespersons) understand the important questions. A time-honored piece of investment advice is that investors should never put their money in something they don't understand. But is that realistic in today's global marketplace? If you have a savings account in your bank, do you really know where the money is going? How much information do you need to make good decisions?
3. What do you think you have to know to be a good steward of the public's money? How should a government build adequate capacity in its own agencies to ensure it manages the public's money well?

*Note:* This case comes from my column in *Governing* (October 2012), <http://www.governing.com/columns/potomac-chronicle/col-global-libor-scandal-cost-states-localities-millions.html>.



## CASE 10.2

### Pay to Spray? Fire Protection and the Free Rider Problem in South Fulton, Tennessee

Gene Cranick was devastated as he poked through the remains of his house. His grandson Lance had been clearing out trash and burning it in a barrel near the home. Lance went inside to take a shower and when he came back outside he found a shed in flames. His garden hose couldn't keep up with the spreading fire, which soon reached the house. The family lost everything, including three dogs and a cat and a lifetime's belongings.

The rural town of South Fulton, Tennessee, had a fire department. In fact, the fire department arrived at the scene—and watched as the home burned down. The town imposes an annual \$75 fire protection fee, commonly known as “pay to spray,” for citizens like Cranick who live outside the South Fulton city limits and who rely on South Fulton's fire department. “I just forgot to pay my \$75,” Gene Cranick explained later. “I did it last year, the year before. . . . It slipped my mind.” The firefighters arrived when his neighbor, who had paid the fee, called 911. The trucks sprayed down the fence line separating the homes but refused to put out the fire at Cranick's house. As Jeff Vowell, South Fulton's city manager, later explained, “We have to follow the rules and the ordinances set forth to us, and that's exactly what we did.”<sup>1</sup>

Cranick's neighbor had pleaded with the fire department to train the hoses next door. They begged firefighters to help the family, and Cranick offered to pay whatever it would cost for help. The firefighters responded that it was simply too late. The policy, in place for more than two decades, was clear: pay, in advance, to spray. “Anybody that's not inside the city limits of South Fulton, it's a service we offer. Either they

accept it or they don't,” South Fulton Mayor David Crocker said.<sup>2</sup>

The sad case led to a national debate over the decision of the firefighters to stand by and watch the home burn. Jacqueline Byers, at the National Association of Counties, explained, “If the city starts fighting fires in the homes of people outside the city who don't pay, why would anyone pay?”<sup>3</sup> It's a classic free rider problem, some experts said: allow others to pay the cost of municipal services, and then use the services when they're needed. But the president of the International Association of Fire Fighters said the policy was “incredibly irresponsible.” He argued, “Professional, career firefighters shouldn't be forced to check a list before running out the door to see which homeowners have paid up.” Instead, “They get in their trucks and go.”<sup>4</sup>

Conservative commentator Glenn Beck said that the argument will go “nowhere if you go onto ‘compassion, compassion, compassion.’” The fee, he said, is “to pay for the fire department to have people employed to put the fire out.” He concluded that to use fire services without paying the fee “would be sponging off your neighbor's \$75.”<sup>5</sup> But another conservative commentator, Daniel Foster, countered with this argument: “I have no problem with this kind of opt-in government in principle—especially in rural areas where individual need for governmental services and available infrastructure vary so widely. But forget the politics: what moral theory allows these firefighters (admittedly acting under orders) to watch this house burn to the ground when (1) they have already responded to the scene; (2) they have the means to stop it ready at hand;

(3) they have a reasonable expectation to be compensated for their trouble?"<sup>6</sup>

### QUESTIONS TO CONSIDER

1. Do you believe that the firefighters should have used their equipment to put out the fire, even though local policy explicitly told them not to?
2. Should Cranick have been able to pay on the spot for service, so the firefighters could save his house?
3. Do you think that a policy to opt-in for governmental programs—to pay in advance for basic municipal services—is a good one? Do you think there are some services where such a policy is appropriate and some where it is not? Consider, for example, a range of basic services including fire protection, police protection, garbage pickup, snow plowing, road repair, parks, recreation, and local schools. Are some services different from others—and, if so, how would you differentiate between them?
4. If local ordinances set clear policies for local administrators, under what circumstances might it be proper for these administrators to step over the policies? It must have been hard for the firefighters to watch a family grieve as all their possessions went

up in flames. Then there is the free rider problem: if someone can plead his or her case in a crisis, why shouldn't everyone rely on their neighbors to pay for the cost of providing the service? Would it ever be permissible to go against policy in the case of need?

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## CASE 10.3

### Tweeting to the Rescue? How the Mayor of Newark Used Social Media to Improve Public Service Delivery

Some newswriters christened the 2010 Christmas weekend blizzard the Great Tsnownami or Snowmageddon. As nearly two feet of snow buried New York in deep drifts, in one of the five worst storms ever to hit the metropolitan region, thousands of flights were canceled and Amtrak was stalled for two days. Dozens of ambulances became stuck in drifts and even heavy front-loaders had to be tugged out of clogged city streets.

Local newspapers complained about the pace of snow removal. The website of the *New York Daily News* ran a photo of the Staten Island home of John Doherty, the sanitation commissioner. "Does your street look like this?" the website asked. That street, the *Daily News* said, "was plowed

clean," but "the dead-end streets on either side of his block remained a snow-choked winter blunderland."<sup>1</sup>

New York Mayor Michael Bloomberg acknowledged that "many New Yorkers are suffering serious hardships." He also said, however, "The world has not come to an end." In fact, "The city is going fine. Broadway shows were full last night. There are lots of tourists here enjoying themselves. I think that the message is that the city goes on." A *New York Times* writer thought wryly of Bloomberg's comment as he was looking at two men trying to push a Cadillac Escalade out of a Brooklyn snowbank, with the smell of burning rubber from spinning tires in the air. Were they thinking of taking in a Broadway play, the writer asked? One of the men



trying to free the Escalade was incredulous. "Take in a play?" he asked. "What does the mayor suggest? Walking?" Times Square, after all, was a ten-mile hike or a half-hour drive, even in good traffic without snow.<sup>2</sup>

Across the Hudson River, Newark Mayor Cory Booker was camped on Twitter (<http://twitter.com/corybooker>) and was putting his own shoulder to the shovel. One woman said she was stuck and needed to

get to a medical procedure. "I will dig you out. Where are you?" he Tweeted. One Twitter follower worried about how Booker's back was holding up. "Thanks 4 asking, back killing me," he responded. "Breakfast: Advil and Diet Coke."

Booker assured residents he was personally on the case. Two days after the storm ended, he Tweeted, "Stepping off streets for hour or so 2 take a meeting I couldn't cancel. We still have dozens of trucks & 100s of workers out clearing snow." When he got out of the meeting, he told a worried resident, "I'm on my way to Treamount Ave now to help dig your mom out." Then a Tweet arrived: "don't forget brunswick street by astor." He was quickly back in touch. "Thanks for the heads up. I'm sending a crew. It will be there in a bit." From a worried resident, about Booker's trademark look: "Saw u out there on S Orange. Put a hat on that head. Us baldies can't be going commando out there." The reply: "No need I've got a hot head."

Snow removal has a long history of causing officials heartburn, both political and administrative. Chicago Mayor Michael Bilandic lost a primary election in 1979 because, most local political analysts believed, local voters punished him for failing to respond quickly enough to a major blizzard. In 1969, another New York blizzard so politically crippled Mayor John Lindsay that he never recovered. When he visited Queens, residents scorned him. "You should be ashamed of yourself," screamed one angry woman. Another said, "Get away, you bum."<sup>3</sup>

Booker was determined to avoid that fate. A Tweet arrived: "quitman/spruce need plowing. noone has touch those streets—becoming dangerous." He shot back, "We r on it. DM me ur # if u want 2 talk."

## QUESTIONS TO CONSIDER

1. Compare the two strategies: Bloomberg and Booker. Consider the differences in scale between the two cities. Think about the differences in communication. Which do you believe was most effective?
2. How has the rise of social media, like Twitter and Facebook, changed the decision-making landscape, both in how officials make decisions and how they are *seen* to make decisions? How do social media affect the way accountability for public decisions might work?
3. Voters and citizens expect good results from their public officials. They expect to hold them accountable for their decisions and, as the Chicago and New York examples show, they can do so at the ballot box. On the other hand, is there a risk in a decision maker becoming too personally identified with individual actions on the frontlines? Is there a risk that having a mayor shovel out the car of one resident himself might take him away from command decisions that affect opening up the streets for everyone? How should decision makers sort out the question of who makes which decisions?

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# CASE 10.4

## What Are You Eating for Breakfast?

Most Americans eat breakfast, surveys find. In fact, on average Americans ate breakfast 361 days a year in 2016, an increase from 350 days a year in 2010. That's been especially good news for fast-food restaurants, where breakfast-time stops increased 8 percent from 2014 to 2016.<sup>1</sup> Americans love breakfast—and increasingly they like it to be portable, in everything from sandwiches to yogurt to granola bars. Some food chains, like McDonald's, rose to the challenge by offering breakfast all day.

But this has been bad news for cereal manufacturers. Breakfast meals eaten at home fell from 31 percent in 2009 to 27 percent in 2015. Cereal sales dropped 9 percent in the four years from 2011 to 2015. In fact, the cereal industry suffered a bigger hit than did any other business selling packaged food.<sup>2</sup>

A large part of this trend is younger Americans' declining interest in eating cereal. For example, Ashley Peters, who works in Minneapolis, explained that she grew up eating Cheerios and Cap'n Crunch but now eats a granola bar on the job. "It's just easier to do," she explained. "I don't have time for milk at work."<sup>3</sup>

All companies are chasing millennial consumers, who now are the largest demographic in the country—larger even than baby boomers. That goes for cereal companies, too, who know they need to appeal to millennials if they are to stop the slide in sales. But a *New York Times* story caught national attention when its author pointed to one survey that said 40 percent of millennials didn't like cereal because it "was an inconvenient breakfast choice because they had to clean up after eating it."<sup>4</sup> Organic products and brands perceived as healthful are selling well, but sales in the overall cereal market are decreasing. Convenient on-the-run snacks are doing better. Sales of food bars, especially granola bars, have been surging, especially because they're convenient and consumers view them as healthy.

The problem, however, is that often these granola bars are not healthy. A *New York Times* study showed that 71 percent of the public thinks that granola bars are healthy, but only 28 percent of nutritionists agree. Although granola bars sound healthy, with ingredients such as oats and other grains, some are full of sugar. A Twix candy bar, in fact, has about as much sugar and as many calories as a typical granola bar.<sup>5</sup> In fact, consider those foods where the gap between what consumers *think* is healthy and what nutritionists have concluded is greatest.<sup>6</sup>

### Foods Considered Healthier by the Public than by Experts

Percent Describing a Food as "Healthy"	Nutritionists	Public	Difference
Granola bar	28	71	43
Coconut oil	37	72	35
Frozen yogurt	32	66	34
Granola	47	80	33
SlimFast shake	21	47	26
Orange juice	62	78	16
American cheese	24	39	15

Then there are foods that cut the other way, where experts believe items are healthier than consumers think:

### Foods Considered Healthier by Experts than by the Public

Percent Describing a Food as "Healthy"	Nutritionists	Public	Difference
Quinoa	89	58	31
Tofu	85	57	28
Sushi	75	49	26
Hummus	90	66	24
Wine	70	<b>52</b>	18
Shrimp	85	<b>69</b>	16

Then there are foods that both consumers and experts agree are healthy—and not.

**Foods That Both Groups Think Are Healthy**

Percent Describing a Food as "Healthy"	Nutritionists	Public	Difference
Apples	99	96	3
Oranges	99	96	3
Oatmeal	97	92	5
Chicken	91	91	0
Turkey	91	90	1
Peanut butter	81	79	2
Baked potatoes	72	71	1

**Foods That Both Groups Think Are Unhealthy**

Percent Describing a Food as "Healthy"	Nutritionists	Public	Difference
Hamburgers	28	29	1
Beef jerky	23	27	4
Diet soda	18	16	2
White bread	15	18	3
Chocolate chip cookies	6	10	4

Nutritionists are always urging us to eat healthier food. But there are big, sometimes remarkable, differences between what ordinary consumers *think* is healthy and what experts believe. This affects not only the sales of cereals and granola bars. What consumers think is good and what experts believe often don't connect, both for breakfast and in many other decisions we make about our food throughout the day.

**QUESTIONS TO CONSIDER**

- Are you surprised by the findings of this analysis?
- For the food items where you are surprised, what is the source of your beliefs?
- What explains the difference between what experts think and what consumers believe—and do you believe the experts?
- What are the implications for decision making, where there so often are big gaps between citizens' perceptions and what experts believe? Do such gaps lead to bad or dangerous decisions?
- Could—and should—the process be improved, so we make more decisions on the basis of better evidence? What steps would be most likely to be most effective?

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## SUGGESTED WEBSITES

The study and practice of decision making has produced a vast array of approaches to this important and complex field. Many areas of public policy have developed new methods of decision making, for instance, in the environmental arena (see the Global Development Research Center, [www.gdrc.org/decision](http://www.gdrc.org/decision)). In health care, many practitioners have argued for an approach to the field that is based far more on the application of evidence, including work at websites like [www.evidencebased.net](http://www.evidencebased.net). Moreover, the Federal Executive Institute's training programs for the

federal government's top managers contains a wide-ranging collection of courses on decision making (see [www.leadership.opm.gov](http://www.leadership.opm.gov)).

The Society for Judgment and Decision Making has prepared a useful website, which contains links to a wide spectrum of work in the field (see [www.sjdm.org/links.html](http://www.sjdm.org/links.html)). In addition, the *International Journal of Information Technology and Decision Making*, [www.worldscinet.com/ijitdm/ijitdm.shtml](http://www.worldscinet.com/ijitdm/ijitdm.shtml), regularly reviews cutting-edge thinking on the subject.

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