

BEYOND PRINCIPAL-AGENT GOVERNANCE: EXPERIMENTALIST ORGANIZATIONS, LEARNING AND ACCOUNTABILITY

Charles F. Sabel

1 INTRODUCTION

The success of LPF, like the success of similar populist movements that preceded it in Austria, France, Switzerland and elsewhere, raises grave questions about the legitimacy of democratic inputs to public decision making and the efficacy of public action however decided. At the very least these successes signal an impaired responsiveness of the democratic state to its electorate: a democratic deficit. Coming at a time of economic well being, shifts in party allegiance of a magnitude not seen since the 1920s are thus widely and rightly seen as extending beyond democratic criticism of this or that incumbent government into a protest against the way contemporary representative democracy works.¹

The causes of this democratic distress are many. But there is substantial agreement that an important source of the protest is disappointment with the way government provides public goods such as education, health care, public security, and with the regulatory rules regarding, for example, the environment, to which civil society actors must respond (Van den Brink 2002). Among politicians of many political colors and in the high reaches of the civil service there is further agreement that government fails at these tasks because it tries to solve too many public problems directly, and too often with rigid, bureaucratic methods: The state fails to deliver in key areas where sustained public engagement is necessary, even while meddling wastefully in matters where it is not. These failures, it is further claimed, are especially burdensome for increasingly diverse and vulnerable social groups. As government is manifestly less able today than in recent decades to protect the vulnerable against the insecurity associated with market economies by social insurance, it must assure solidarity by providing those particular forms of education and other services that enable citizens, as

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individuals and families in different settings to respond effectively to the risks they face. In short, the state's failure as a service provider becomes all the more onerous, and all the more objectionable to broad groups of citizens, as effective service provision becomes key to public well being (Esping-Anderson, 2002; O'Donnell, 2004; Trubeck and Zeitlin, 2003).

Very generally those who see the democratic deficit in the Netherlands as connected to the misdirection of state effort agree that the solution is for government itself to intervene less, and above all less directly, in civil society. On the contrary, to the extent possible, the state should encourage or require civil society actors to supervise themselves in the provision of services and rules, and limit its own intervention to monitoring the self-supervision of civil society actors: Instead of issuing detailed regulations, or specifying how services are to be provided, the state would set general goals, monitoring the efforts of appropriate actors to achieve those goals by means of their own devising. The state would then intervene only when the efforts of the latter fall short. In this way the state could respond to the growing need to customize for the domestic economy and polity the general provisions of EU and international law to which it is increasingly subject, while responding to the demands of every more 'mature' and 'individualized' citizens for public prestations tailored to their particular situation. Within this very general framework concrete proposals for improving services and regulatory rule making currently under discussion in the Netherlands (and of course hardly there alone) go in two, apparently contradictory directions (Ministerie Binnenlandse Zaken 2003; Projectbureau Operatie Jong 2004)

The bottom-up proposals insist on the need to subject the local or street-level instances of public service administrations to popular control through a locally constituted citizens' or clients' council, or to delegate responsibility for service provision or rule making to civil society actors such as firms, NGO's and trade unions or professional associations. When the emphasis is on direct democracy in service provision these initiatives often go by the name of interactive governance. When the emphasis is on increased civil society participation in problem solving, especially through rule making, they go by the name of self regulation.

The top-down proposals for reform focus on making public administration accountable for achieving the broad goals set by the relevant political authorities. A chief instrument to this end is the translation of those general aims into detailed administrative targets—a 50 percent decrease, say, of assaults per month in a crime-ridden area, or a 50 percent decrease in the school drop-out rates—so that compliance with directives is easy to measure, and incentive systems correspondingly easy to design. Reforms aimed to increase accountability in this way often go by the name of new public management (NPM).

In practice, of course, these proposals are often complements, not competitors, and the boundaries among them are in any case blurred. Increased client input can heighten

accountability within the framework of NPM while opening a social space for self regulation or more direct forms of democracy. Nonetheless, the distinctions between top-down and bottom-up service-provision/regulatory responses to the recent political cataclysms are useful points of orientation for discussion of the prospects of democracy in relation to state reform in the Netherlands and generally.

In this note I follow the consensus in assuming that the democratic deficit is linked to the misdirection of state efforts, and join the general conclusion that government should reduce direct management of civil society in favor of extended monitoring in ‘the second line’ of the efforts of civil society actors to achieve generally agreed goals (Ministerie van Binnenlandse Zaken 2003). My central claim is that current debate over bottom-up and top-down governance reform—in disregard of the lessons of contemporary, practical success in collective problem solving—ignores important organizational innovations, without which the reallocation of control rights to civil society actors is unlikely to result in the social learning about the effective pursuit of the broad, imprecise goals—‘effective’ or ‘adequate’ education—implied by the turn to service-oriented solidarity. I argue further that these innovative, problem solving institutions, though not intrinsically democratic, can be configured in ways that address familiar problems in representative, deliberative, direct and associational democracy; and that, so configured, they are compatible with the Dutch tradition of sharing democratic sovereignty between parliament and extra parliamentary bodies. The core of the paper discusses the principles informing these new organizations; illustrates their operation as regulatory rule makes and providers of a new kind of public service; and speculatively defends their democratic aptitude in general and in the setting of consensual democracy characteristic of the Netherlands. The argument is in three parts.

Part 1 argues that the apparent differences in the top-down and bottom-up proposals for service/regulatory reform obscure a deeper commonality: Both assume that there are civil society actors (principals) who already know what needs to be done to solve collective problems. From this they conclude reasonably enough that the problem is to give these principals the authority to do themselves what needs to be done (under continuing public supervision), or to instruct public functionaries (agents) to act on their, and the public’s, behalf.

But what if, as I and many other assume, there are no principals in civil society—not even the political parties that connect it to the agents in public administration—with the robust and panoramic knowledge needed for this directive role? Then the problem for reform is at least as much determining ways actors can discover together what they need to do, and how to do it, as determining which actors ought to be the principals in public decision making. At the limit, if there are no actors capable of setting goals with the precision needed to guide effective public action, governance reform must attend *simultaneously* to

institutionalizing public or social learning and allocating decision-making rights—rather than assuming, as often is the case now, that learning is automatic when the ‘right’ constellation of principals is in control.

Part 2 then looks in some detail at a new class of networked, experimentalist organizations that assume the provisionality of their goals. They institutionalize social learning by routinely questioning the suitability of their current ends and means, and periodically revising their structures in light of the answers. I use promising developments in the reform of public schools and the regulation of food safety in the US to illustrate how such organizations are effectively addressing problems that seemed beyond the reach of principal-agent governance in the provision of crucial services and regulatory rule making. The aim is to suggest, though not of course to pretend to demonstrate, that insofar as defects in the provision of public goods are at the heart of the problem of the democratic deficit in the Netherlands and elsewhere, experimentalist institutions are at the heart of solution.

But this is far from the whole story. Just as there are good reasons to think that a democratizing redistribution of control rights will not lead automatically to the social learning necessary when goals can not be fixed *ex ante*, so there is reason to doubt that experimentalist institutionalization of social learning will lead by itself to more democratic control of key services and regulatory regimes. So we need to ask whether, and eventually in what way, experimentalist institutions can be democratically domesticated? Part 3 looks at this question from the vantage point of two reasonable worries about the new, networked institutions.

The first is that the kinds of formalization of knowledge on which these institutions depend create infernal possibilities for forms of social control, at best eliciting the pointless pursuit of arbitrary, narrow goals associated with some forms of NPM, and at worst destroying the autonomy of professionals, clients and citizens, as in the Foucauldian nightmare of all truth seeking as a mask for inescapable social discipline. In response I will try to show that these organizations encourage forms of reason giving and deliberation that seem as antithetic to narrow rule following as to unwitting subservience to a social script: On the contrary, experimentalist institutions seem to make explicit, and thereby transform and render accessible to collaboration and public review, traditional forms of professional autonomy interest group influence. Experimentalism invites, I will argue, though it does not automatically create, a form of directly deliberative and democratic control over key institutions, making not only professions but also other such primordial or ‘natural’ stakeholder groupings (labor or trade organizations, organized confessions), available to review by their peers, clients, and wider public circles in ways that check their authority. Configured to be accountable in this way, the argument continues, experimentalism potentially mitigates the most salient defects of deliberative and associational democracy—

the two most frequently discussed alternatives to representative government. Put another way, experimentalist institutions can be both effective problem solvers under modern conditions of pervasive uncertainty and ‘locally’ democratic in the sense that service providers, clients and other stakeholders can be held mutually accountable.

The second and related worry is whether locally democratic experimentalist service providers and rule making regimes can be made subject to democratic control by the parliament and judiciary. If not, there is danger of parallel government(s), effective within distinct precincts, but beyond overall public control and unable by themselves to generate some substitute for the latter as a forum for setting society-wide priorities and reviewing existing commitments. Here I argue that the Netherlands, as a past master of consensus democracy, has vast experience in integrating parliamentary decision making with the organized deliberations of civil society. Some of this legacy may encumber Dutch society with entrenched veto powers and deep expectations at odds with the emergent needs. But we will see that a society that (almost always) thinks of sovereignty as shared between the legislature and civil society already has some important institutional resources with which to link the directly deliberative possibilities of experimentalist institutions to administrative, and thence parliamentary review. Indeed establishing such a link by re-conceiving the division of labor—and thus the separation of powers—among parliament, the administration, and the judiciary may be the best way for the Netherlands to renew, yet again, equal and mutually informing commitments to self government through social consensus and deep respect for the diversity of groups and the integrity of individuals.

2 BEYOND PRINCIPAL-AGENT GOVERNANCE: EXPERIMENTALIST ORGANIZATIONS AND NEW PUBLIC GOODS

On one level, NPM and interactive governance—the top-down and bottom-up responses in the Netherlands to the challenge of improved service provision—could not be more different. NPM seeks to revive representative government by tightening the grip of parliamentary government on administration enough that electoral outcomes actually redirect state efforts as voters intend—or at least enough so that failure to act as instructed can be sanctioned at the next election. This driving idea of NPM is taken directly and openly from US economics of the 1980s, and notions of corporate governance reform associated with it: Just as shareholders wrest control over private corporations from managers (who were sometimes thought to be out just for themselves, sometimes colluding with the work force against consumers and equity owners) so the citizens are to retake control of their state from public officials and interest groups (Boston et al. 1996).

Where NPM thus strikes some as business friendly, or, more neutrally, technocratic, interactive governance has a grass-roots aspect. It implicitly abandons (though it seldom

directly attacks) representative government, by-passing parliamentary law-making and the ensuing delegation of rule making authority to administrative bodies. Instead it puts control of state action in the hands of those most immediately affected by it: the users of key services or the entities subject to regulatory rules. Such control may be exercised through local advisory councils empowered to instruct, or create alternatives to, local levels of public administration, or through deliberative bodies making rules for particular sectors or problem areas. Either way the result is to displace representative democracy with a directly democratic alternative (Denters et al. 2003).

But on another, more fundamental level NPM and interactive governance are the same, not different. Both assume that there exists in the polity or in civil society principals who, because of their current situation (as voters, or as the bearers of some relevant local knowledge) know with high precision what needs to be done, even if they cannot fully solve some problem in advance of any effort actually to do so. Accordingly the chief problems for governance are identifying the knowledgeable actors and devising institutions that keep the agents that execute tasks firmly under the control of these principals who, correctly, conceive them. In the case of interactive governance this leads, at the limit, to collapsing execution into conception (principals as their own agents, or the public equivalent of the owner-operated firm). In the case of NPM it leads, as we will see in a moment, to a radical separation of conception from execution. But these differences are simply context-specific means to the common end of maintaining the fidelity of state action to the intentions of legitimate principals. A brief review of the travails of NPM in practice will show how its shortcomings prompt consideration of interactive governance; and an even briefer look at the shortcoming of interactive governance will underscore the untenability of the key assumptions underpinning both.

The assertion of 'straight-line' accountability from voter to administrative agent in NPM requires the separation of conception from execution in public programs: Otherwise self interested agents will use any chance to collaborate in the design of programs to recommend goals that make themselves responsible for the most rewarding tasks—and the public take the hindmost.² The NPM alternative is for politically appointed ministers, supported by expert staff and hired consultants, to determine strategy, and for civil service managers, eventually complemented or supplanted by private contractors, to execute it. By the same logic the scope of responsibility of individual ministries, and the programs within them, is narrowed, reducing the danger that self interest can use competing purposes as a lever for its own ends. Clearer, narrower goals in turn reduce the need for middle managers

² The following discussion of NPM draws on O'Donnell and Sabel 2001, which references current debates.

to break complex tasks into simpler ones and set priorities among competing programs. The overall result is a narrow, flat administrative structure whose front-line managers clearly understand their purpose as increasing the satisfaction of the citizens (now recast as customers). This is government by results, where the latter are measured by progress on global performance indicators: (improvements in) crime rates, numbers of unemployed persons placed in jobs, test scores (of the competence of students at various grade levels and their teachers), school completion rates, and so on.

A consequence—for some reformers the very purpose—of these reforms is a reduction in the scope of government itself. The clearer the purposes of government, and the more measurable the results of its actions, of course, the easier it is to translate the tasks of public administration into contracts, and to hold contractual partners to account for breaches. This makes it easier for government, first, to contract with private parties, instead of its internal units, for the provision of service: what mattered to the public as citizens and consumers, after all, was the contractual terms and the respect accorded them. Straight-line accountability thus makes the monopoly of public administration on service provision contestable in theory. Making it contestable in fact took an endless series of battles that are already becoming hard to recall now that they have been mostly won.

The successes of the NPM in establishing the contestability of public administration and devolving authority are indisputable and largely taken for granted by the vast middle of the modern democratic polities. But measured by its own standard—as a movement to restore accountability and effectiveness to government—the results of the principal-agent movement are equivocal at best. Government in the Great Britain, perhaps the country that has remained most faithful to the original NPM project, is arguably less accountable, and on balance, no more effective than before, for two reasons connected to the principal-agent underpinnings of the reform movement itself.

First, it proves impossible to separate strategy from implementation, or more generally, conception from execution. Those who carry out orders, it was (again) discovered, learn not only how to refine the execution of tasks, but also which tasks, and in which sequences, might be worth pursuing. Nor is it just public or private-sector service providers who acquire knowledge relevant to goal setting in this way. Citizen users of the services provided also turn out to have knowledge relevant to public choices; indeed, at the limit, citizens often prove to be co-producers (and hence co-authors) of services as well as consumers of them. In practice, therefore, the administrative bodies responsible within the NPM framework for operational implementation of departmental policy often develop a near monopoly of expertise in their area, so that strategic choices (new ends) often emerge from innumerable small, local decisions about means—a classic case (from the NPM standpoint) of tail wagging dog.

Second, narrowing programs in the interest of accountability has the unintended consequence of making it difficult to co-ordinate relations among the narrower entities. Given specific tasks, and encouraged by new incentive systems to focus exclusively on them, and contract with others to provide collateral services, what is to induce the agencies, especially at the crucial local or street level where clients meet administration, to co-operate among themselves to solve problems requiring joint action? Put another way, horizontal learning between principals and agents in related activities proves as necessary as learning among principals and agents working in a single domain.

The upshot is that the conscientious application of NPM principles typically goes hand in hand with the discovery of what the British call 'cross-cutting' or 'wicked problems': problems, like the reform of schools or the provision of treatment to substance abusers, that both draw on the local knowledge of service providers and service users *and* require co-ordination of service provision across a wide range of formal jurisdictions. It is no coincidence that the wicked problems appear just where the new, solidarity sustaining services need to be provided: The citizens at risk, and therefore in need of such assistance, can usually benefit from a service such as job training only if it is provided with an idiosyncratic bundle of others, such as child care, transportation, and psychiatric support. The same logic applies to institutions in need of reform: A failing school typically needs not only to re-organize classroom pedagogy and the way teachers learn from each other, but also its relations to the local police, family protective services and substance abuse programs. As these necessary complements can hardly be furnished by one entity, bundling them appropriately is a wicked problem.

A clear manifestation of the recognition of wicked problems is the profusion, within any single system of NMP, of quantitative targets. The sovereign principal senses, for example, the complex interdependence of the public safety, education, housing, and transportation problems of large urban areas home to large immigrant populations. So it concludes contracts with large municipalities rewarding each, with further, perhaps increased subsidies, if it makes progress towards achieving 40 improvement goals, each presumed to be valuable in itself and even more valuable if achieved in combination with subsets of the others. But this recognition of the problem does nothing to solve it. On the contrary: Multiplication of explicit goals gives the agent as much discretion as the delegation of broad, hence ambiguous authority: Since the agent can not possibly do all the things the principle explicitly says or generally implies need doing, it is the agent, not the principal who chooses what goals are actually pursued. Thus, in the case of the municipal improvement contracts, it will be an open secret that the municipalities will be able to argue for *some* progress on *some* indicators. As the problems they face are likely to have gotten worse, not

better, in time, it will be impossible to deny continuing subsidies, barring outright malfeasance.

One more thoroughgoing, though equally hapless effort to correct NPM in the face of wicked problems is to create a new, central bureaucratic elite (a commando center), with the flexibility to define cross-cutting projects. But the creation of a commando center invites repetition of the self-deluded errors of the overreaching state in reaction to which the governance debate, ideas of NPM included, arose. A second and contrary organizational response is to devolve responsibility to local networks of participants and providers. The devolution of authority to local networks leads to some variant, formal or informal, of interactive governance.

Interactive governance is a more tender shoot than NPM.³ Its relation to the institutions of local government are much more complex than a statement of its animating principles would suggest. Hence interactive governance is perhaps better thought of as a rubric for a broad class of decentralizing reforms than as a definite program of re-organization; and given the brevity of the experience of these initiatives, and the paucity of evidence about them, it would be premature to venture an overall estimate of their potential and limits.

Still, even on the thin evidence available, it seems that interactive governance runs again and again into the same limit: While local knowledge is necessary for effective and legitimate action (a lesson, among others, of the failures of NPM), it is seldom sufficient. Thus municipal decentralizations undertaken in the name of interactive governance repeatedly discover that the local citizen-principals empowered by the initiatives have no clear idea of what to do with the powers or resources attributed to them—they know what they do not want, but not what they do. Or, if they do have preferences, these are more likely to reflect (microscopically) local interests—or the interests of a local institution with which they are affiliated—than anything like a conception of the local public good. Or if a local public with general ideas of reform does coalesce, the local ‘implementers’ have problems collaborating with the ‘conceptualizers’ at the next highest levels of municipal government. In short, where the NPM is hamstrung by the way it limits the ability of principals with (pseudo-) global knowledge to learn from local experience, interactive governance is hamstrung by way it limits the ability of local principals to learn from those with a more panoramic view.

The more general lesson of the shortcoming of NPM and interactive governance of course is that the principal/agent distinction, with its presumption of the separability of means from ends and of global from local knowledge, is untenable in practice. In currently complex settings, choices of means routinely influence choices of ends, and vice versa, just as

global and local knowledge are mutually corrective, not hierarchically ordered. The interaction of ends and means and thus the indeterminacy of both—the limits on our ability to know what we want, and how to get it—that this experience suggests will surely be counter-intuitive to many: The principal/agent distinction rests, after all, on the bedrock assumption in much of economics and organizational sociology that ends are chosen prior to, and independent of means. Economists in particular are likely to find the idea that public goods such as education or public safety could be indeterminate in this way especially paradoxical, not to say implausible: In economics the utility, and so presumably the feasibility, of a public good is taken to be so self-evident that each potential beneficiary assumes all the others will want it too. Hence the free rider problem distinctive of public goods: Since each consumer/client concludes (rationally but incorrectly) from the general attraction of the benefits to all that the others will shoulder the costs, no one does (unless obligated to pay her share by a collective decision obligating all). But the profusion of wicked problems shows that under current circumstances the joint organizational problems of determining just what kind of public good to provide and how to provide it are at least as crucial and refractory as the public finance problem of outwitting the free rider. To underscore the indeterminacy of collective services now urgently demanded, and hence the organizational challenges they pose, I will speak of the provision of new public goods.

If these two variants of principal-agent governance exhausted the choices for public decision making, prospects for the provision of new public goods would be dark indeed. But NPM, interactive governance alternatives to it, and the governance debate more generally, overlook crucial, current innovations in the nature of organization itself. These innovations blur—but do not efface—the distinction between conception and execution, principal and agent, global and local, and so allow for co-ordination of changes of means and ends—social learning—unattainable by conventional institutions. These breakthroughs, pioneered, but no longer limited or even best exemplified by modern Japanese firms, are becoming diffusing rapidly in the public administration service providers and public rule makers in the US and the EU. It is to this novel institutionalization of learning that we turn next.

3 EXPERIMENTALIST SERVICE PROVISION AND RULE MAKING IN PRINCIPLE AND PRACTICE: FOUR ILLUSTRATIONS

Consider this highly stylized contrast between organizations before and after roughly 1980:⁴

³ See Denters et al. 2003 for an overview and good sample of recent research.

⁴ The following draws on Sabel 2004b forthcoming.

In the century before 1980 the canonical organization was hierarchical and closed, and the determination of ends accordingly preceded and remained distinct from the elaboration of ends. Parliament (acting presumably on behalf of the voters) or headquarters (acting presumably on behalf of the stockholders) set goals. Ministries, administrative agencies or high managers parsed complex tasks into simpler, more manageable ones; organizational routines specified how to parse, execute and review the compliance of tasks. Subordinates were rewarded for complying with instructions; middle managers checked the conformity of activity to plan. This hierarchical subdivision of labor was taken to be the uniquely effective response to the problem of bounded rationality—the limited processing capacity of individual human beings—and hence the only means by which humans in organizations could master superhuman tasks. The precondition for hierarchy of course was and is (relative) stability. If the world changes before it is possible to recoup the enormous costs of designing complex goods and services, and the fixed organizations to produce them, investments in hierarchy are pointless.

After 1980, for reasons we do not know, and may never fully understand, the world becomes too volatile for hierarchies. Again for reasons, and by a path, that we are far from understanding, a new kind of organization emerges in response. The canonical form of this organization is federated and open. Decisions of higher units are shaped by lower ones, and the lower units can be formally outside the organization. Or, to capture the idea that information in the new organization flows up and down as well as sideways, they are said to be networked. General goals or designs are set provisionally by the highest level—parliament, a regulatory authority, or the relevant corporate executives—through benchmarking: an exacting survey of current services, rules, products and processes, supplemented by assessments of what new and unproved variants that might become available for use. Then the provisional goals are revised in light of proposals by lower level units responsible for executing key aspects of the overall task.⁵ Once a service is being provided, initial rules are in place, or production begins, continuous monitoring detects errors and breakdown, uses these findings to trigger searches for the root causes of design or other flaws that escaped earlier examination. The goal of such root cause analysis is to trace disruption back to its original source, which may not be palpably linked to the proximate cause of the breakdown. Taken together routines such as benchmarking, simultaneous engineering, continuous monitoring, error detection and root cause analysis define methods for choosing provisional, initial goals and revising them in the light of more detailed, partial proposals arising from efforts to implement them. Put another way, the routines make it routinely possible to correct ends through the exploration of means and vice versa. In the pragmatism of Dewey and James it is the nature of our world, and our apprehension of it, that experience regularly unsettles our

guiding assumptions. So we can think of these new institutions as pragmatist in that they systematically provoke doubt, in the characteristically pragmatist sense of an urgent suspicion that their own routines—habits gone hard, into dogma—are poor guides to current problem solving.

These features of networked organization have important implications for the principles and practice of governance. Compliance or accountability in the principal/agent sense of rule following is impossible. There are in effect no fixed rules, or, what comes to the same thing, a key rule is to continuously evaluate possible changes in the rules. Accountability thus requires not comparison of performance to goal or rule, but reason giving: actors in the new institutions are called to explain their use of the autonomy they are accorded in pursuing the corrigible goals. These accounts enable evaluation of their choices in the light of explanations provided by actors in similar circumstances making different ones, and vice versa. To encourage this kind of ongoing, mutual reflection, monitoring is continuous, or nearly so, rather than occasional or episodic; and it is less concerned with outcome measures than with diagnostic information—information that can redirect the course of ‘treatment’.⁶ Where the failure to follow the rule in principal/agent systems is, in theory, immediately penalized, in pragmatist systems non-compliance in the sense of inability or unwillingness to improve or otherwise respond to change at an acceptable rate triggers, we will see, increased, capacity enhancing assistance from the oversight authority. Repeated failure to respond, even with assistance, is, however, likely to bring about the dissolution of the offending unit.

These federated organizations respond to the problem of bounded rationality not primarily by decomposing complex tasks into simple ones, but rather by creating search networks that allow actors quickly to find others who can in effect teach them what to do because they are already solving a like problem. Because they are good at searching ‘rugged’ terrains (in which there are many hillocks and mountains, but no soaring peak that affords a panoramic view) they are as well suited to volatile, rapidly changing settings as hierarchies are to stability. Through continuous, diagnostic monitoring the networked organizations ensure that they actually learn enough from current searches to direct successive ones towards promising goals. Though we will not pursue these themes here, this capacity to search routinely for new solutions makes the new organization robust in the face of disruptions that would cripple hierarchies; moreover, such robustness also seems to enhance their ability to discover efficiency-enhancing improvements inaccessible to hierarchies—so

⁵ In industry this is often called ‘simultaneous engineering’.

⁶ A diagnostic test of mathematic ability detects not just that a student fails to solve a certain kind of problem, but also reveals whether her difficulties were with translating the query posed in the question into a formal language or manipulating the formalism.

that the advantages of the new organizations in volatile settings have spill-over effects in more stable contexts as well.

To get a more precise idea of how these pragmatist institutions work, and especially how they can address the problems of service provision and rule making that confront the contemporary state, consider four variants of the networked organization. Three are drawn from the public or publicly regulated sectors; the fourth concerns the private manufacturing corporation. It is included to show that the principles at work here are apply equally well in the public and private sectors. Indeed, one of the reasons these principles work well in public rule making is precisely that they mesh with forms of management that spring from the same source.

3.1 New Public Service Organization

This type of institution is receiving increasing attention in various domains of policy studies, and for reasons noted above it is especially pertinent to discussion of service provision as a key element of renewed social solidarity. Well documented examples are schools in Texas, Kentucky, North Carolina and elsewhere in the US that actually teach poor children of color to read and do mathematics with proficiency comparable to that attained by rich, white pupils.⁷ The new organizations have a clear purpose, fixed in the cases discussed here by state and federal laws—provide *all* students an adequate education. But the reforms are built on the assumption that a workably precise definition of adequacy and a serviceable idea of how to build a school system that achieves will be joint products of the disciplined search for the desired result.

As the foregoing suggests, the pragmatist solution to the problem of providing new public goods is to build an organization that detects and corrects errors at the lowest levels, and then adjusts the higher level structures to generalize successes and encourage more refined error detection, and so on. For example, all students learn to read by some idiosyncratic combination of decoding strings of letters/phonemes (phonics) and derivation of the meaning of words and sentences from context (whole language method). Teachers identify the strengths and weakness of each student's mixture of strategies by sampling their skills in brief, daily sessions, and suggest improvements (local diagnostic monitoring, or first-order error detection and correction). The performance of students in the same grade is measured periodically state wide by a standard test, allowing for the comparison of the performance of teachers within schools, schools, and districts (general diagnostic monitoring, or second-order error detection). The job of principals in this system is to create conditions in the school for generalizing the successes of the most successful teachers. The job of the

principals' superior—the district supervisor—is to create conditions for diffusing the successes of the most successful principals, for example, by creating an academy for training aspirant principals in the new methods of school organization, or in providing programs in professional development by which more successful teachers within and across district school can help less successful ones. When individual schools fail to improve, the district supervisor's job is to intensify the assistance to the struggling facility. If the difficulties are incorrigible, the supervisor 'reconstitutes'—dissolves—the failing organization, and reassigns the students and the capable teachers elsewhere.

In this way the reformed school is invented through the piecemeal, but eventually comprehensive improvement of a crude, but serviceably provisional starting structure that supposes only the broadest, non-vapid agreement on goals and methods: The goal is simply that educational achievement (by mainstream measures) should not vary across groups in culturally salient hierarchies, and gaps should be closed by leveling up, not down. The method is that teachers must aid students to improve their individual bundles of learning strategies, and administrators must aid teachers and other administrators in doing this.

3.2 Rolling Rule Regulation.

The rolling rule regime goes the new public service organization one better: It is almost all provisional goal, hardly any organization at all. More precisely, the rolling rule 'organization' is created by the bootstrapping efforts of the (civil society) actors to meet, then improve on, a broad goal set though benchmarking by a public authority. Perhaps the simplest case is a rule obligating each unit of a public or publicly regulated institution to measure itself against some performance standard—reliable and safe operations, continuous improvement in service provision—and correct shortfalls revealed by comparison with the performance of others facing similar situations. Thus utilities in the US nuclear power-generating industry must report disruptions in their operations to the Institute for Nuclear Power Operation (INPO), an industry-funded entity ultimately responsible to the Nuclear Regulatory Commission. INPO officials sift these near-miss reports to distinguish harmless disruptions from dangerous ones. Thorough analyses of the causes of the dangerous disruptions, and ways of preventing them, are then circulated as Significant Operating Experience Reports, or SOERs. Industry Operating Experience Reviews then periodically assess the ability of particular plants to effectively use the SOERs and other means to improve their own affairs. For purposes of this review, a team of specialists in a variety of areas evaluates the plant's

⁷ See Liebman and Sabel 2004 for a detailed review and effort to synthesize the vast literature in the light of our own research.

troubles since the last INPO inspection, paying particular attention to the plant's own reports on how it has responded to SOERs.⁸

More elaborate forms of rolling rule regimes are emerging where minute variations in daily operations are less likely to signal the possibility of substantial, hidden risks. In such cases the government requires the regulated entity to present a plan in which it identifies the risks to which it is likely to be exposed; specifies how it will mitigate those hazards; regularly monitor whether the mitigating methods are effective; and, if need be, redefines the range of risks to which it is exposed. A regulatory oversight body then evaluates the adequacy of the plans, and the steps to realize them, against the benchmarks set by the best performers. The shift in the US in the 1990s from poke-and-sniff (organo-leptic) methods of ensuring food safety to the hazard analysis of critical control points (HACCPs) shows the drift of developments (Department of Agriculture 1996; Department of Agriculture 2003; Department of Agriculture 2003). In the organo-leptic method an inspector from the Federal Safety and Inspection Service examines every head of cattle or chicken being dis-assembled in a slaughterhouse for quality defects and especially signs of pathogens. The limitation of the method of course is that some pathogens may not be detectable by the usual examinations, so that meat products leaving the processing plant are not assuredly safe; and even if they are, pathogens introduced at later stages of the food supply chain would remain unnoticed. Under the HACCP regulations introduced by the US Department of Agriculture, meat and poultry processors have to identify all the points in their production processes where pathogens are likely to be introduced; detail how they will reduce these risks and verify, by testing, the success of the adequacy of their measures. This HACCP plan must be complemented by a Standard Sanitation Operations Plan detailing the plant's regular housekeeping measures. The role of federal inspectors shifts from direct examination of animal carcasses to verification of the processors' hazard reduction systems. This verification starts with assessment of the adequacy of the HACCP plan (and the companion Standard Sanitation Operations Plan) and includes review of the plants test results as well as independent testing by the inspectors. Eventually the HACCP system is to cover every link in the food supply chain from farm to plate.

Similarly, the rolling rule regimes can be seen as the regulatory face of new public services. Such regimes typically require operating units to formulate and periodically revise strategies for increasing rates of improvement towards a general end. In the case of public school reform discussed above, for example, the general goal is to reduce and eventually eliminate the difference in performance in key subjects such as reading and mathematics between affluent, white students and poor students, who are also often of color. In Texas the State governance regime accordingly requires period testing in these subjects by means of

⁸ See Dorf and Sabel. 1998, for further discussion.

sophisticated standard test that (now) rewards the ability to conceptualize rather than rote learning. Each school must report the results of these tests disaggregated by economic and ethnic groups, and the State pools the data. Parents with children in a particular school can thus compare the rate of improvement of improvement of the relevant subgroup in that school to the 39 other schools in Texas demographically most similar to their children's. State and district officials can draw on the same data pool to identify persistently failing schools. Further dis-aggregation yields information about the performance of particular teachers and administrators that can guide re-organization at the district and school levels (Liebman and Sabel 2003).

3.3 High Reliability Organizations

High Reliability Organizations (HROs) typically operate in the public or publicly regulated sector (Rochlin et al., 1998; Sabel 21004b). HROs are well, but incompletely designed to perform without fail such extraordinarily demanding tasks as generating electric power through nuclear fission; launching and recovering jet aircraft rapidly from and back onto pitching, greasy flight decks; launching and recovering space shuttles; or fighting forest fires as they race through rough terrain. The designs are necessarily incomplete because the conditions under which the specified tasks are to be accomplished are changing continuously in more or less subtle ways. If the organization is not adjusted accordingly, it fails, catastrophically. HROs become disastrously unreliable if they assume that routine, (nearly) invariant success is the result of following invariant routines; and the organizational challenge is to avoid accidents day after day without imperceptibly making this assumption.

Key to this are error-detection and root-cause analysis disciplines. In the setting of HROs, the most important and characteristic of these is near-miss reporting and analysis. Near misses of course are accidents that only accidentally didn't happen. Near misses, and 'out-of-control' sequences that nearly produced them, trigger root-cause analysis meant to uncover and eliminate, the background conditions from which arise the proximate source of danger. We saw a moment ago how the root-cause analysis regimes are often regarded as a key element in the governance of HROs, and how they can become the backbone of regulatory regimes.

3.4 Deliberately Innovative Firms

This is a familiar example the new, networked organization: the firm whose very purpose is to produce innovative products or services. Perhaps the best documented example is of design and production in the automobile industry (MacDuffie, Helper and Sabel 2000; Sabel 2004a).

The process starts when, say, the new-van design team sets the general performance characteristics of the vehicle by benchmarking the best features of current vans. Assessing the results of these probes, and again guided by reference to leading examples and comparison of possibilities, the team next provisionally subdivides or, to take a term from cognitive science, ‘chunks’ its general goals into subtasks—the design of an engine, or heating, ventilation and air conditioning system—and chooses a specialist team from inside or outside the parent company to realize the initial specifications.

After this initial chunking separate project teams elaborate all the provisional subsystems concurrently, applying to that task the same kind of evaluation of competitors’ successful efforts and developmental possibilities used in the van team’s first round of benchmarking. In addition, they benchmark the production processes central to their eventual products to ensure that the methods employed will meet or surpass the efficiency of their most capable competitors. Engine plants, for instance, will have to produce engines that are at least as cheap and warrantable as those of competitors making similar engines in comparable volumes.

Then the initial overall goals are modified by the methods of simultaneous or concurrent engineering, e.g. the engine-design group may find a way to better its target specifications or to cut its manufacturing costs if it can persuade other component groups that design characteristics should be modified accordingly.

Refinement of this iterated co-design continues once production begins by means of just-in-time and the error-detection and correction methods associated with it. In just-in-time production, parts are supplied to each work station only as needed: ideally, one at a time. Hence disruptions are immediately visible. A breakdown at one station halts production by stopping the flow of parts to downstream operations.

To assure the flow of production, therefore, the source of disruption must be identified. This typically requires tracing long causal chains back to improbable origins by insistent questions sometimes called the ‘five why’s. For example:

Why is machine A broken?	No preventive maintenance was performed.
Why was the maintenance crew derelict?	It is always repairing machine B.
Why is machine B always broken?	The part it machines always jams.
Why does the jam recur?	The part warps from heat stress.
Why does the part overheat?	A design flaw.

Thus, as in the other cases, error-detection and correction, like benchmarking and simultaneous engineering, reveal possibilities for improvement in unexpected (mis-)

connections among the parts of complex endeavors; and the cumulative effect of these results is captured in improvements in the benchmark standards for various production processes.

Note, to underscore the radical, organizational novelty of the new instructions, that benchmarking, simultaneous engineering and error-detection methods like the ‘five why’s’ are counter-intuitive from the vantage point of the classic hierarchies that dominated notions of cooperative efficiency before the watershed changes that we are dating to the 1980s. In such classic organizations, long the paradigmatic case for organizational sociology, routines define tasks once and for all. They are effective in easing the burden on our bounded rationality because they become a kind of second nature, questioned only in exceptional circumstances: typically, when goals are reset, and the rules defining the tasks into which the new ends are parsed must be changed accordingly. It is simply oxymoronic from the perspective of such traditional hierarchies to try to do what the new, pragmatist institutions do as a matter of course: routinely question the suitability of current routines for defining and solving problems.

4 BUT ARE EXPERIMENTALIST ORGANIZATIONS DEMOCRATIZABLE?

The foregoing suggests pragmatist institutions do indeed enable the social learning needed effectively to pursue imprecisely specified ends in general and provide new public goods in particular. But if the provision of new public goods is a necessary component of solidarity in today’s democracy, provision of such goods is alone surely not sufficient to secure the legitimacy of government in any modern democracy. Experimentalist service providers and rule makers—experimentalist government in general—must be democratically accountable at least in the sense of being responsive to the (political) will of immediate stakeholders and beyond that to the public of the polity as a whole. If experimentalist institutions can *not* be democratically domesticated, and still assuming they are indeed especially, perhaps uniquely, suited to collective problem-solving under current conditions, our democratic societies would face a fateful choice between effectiveness and fidelity to the principle of self rule. Without pretending to fully address, let alone resolve, all the questions that arise in connection with the democratic vocation of experimentalist organizations, I want to address some relevant general, theoretical issues on the one hand and some practical, institutional ones on the other, and thereby provide at least elements of an overall approach to the many concerns tabled for now.

The first, general worry is that the new, pragmatist institutions are really at best (slightly more effective) cousins of the technocratic NPM reforms. They share with the latter an emphasis on performance metrics, ‘flat’ hierarchies, treating the client as at least a customer (if not a co—producer), and so on. Perhaps, this worry goes, the new institutions blur the distinction between principal and agent just enough to overcome the crippling

defects of NPM, but not nearly enough to truly empower citizen/clients in the sense of giving them a potent voice in the choices that determine which services to deliver and how. This fear shades into the much more alarming prospect that, at worst, the new institutions are *intended* to disenfranchise the public precisely by creating sham forms of participation and consultation. The beneficiaries of this deception would be the technocratic rule makers and the organized interest groups—labor, capital, the confessional associations—with which they all too comfortably consort.

A first response is that this self serving and manipulative outcome, while clearly possible, is hardly inevitable. Decentralization of authority of the kind associated with the new organizations has demonstrably uprooted vested interests in ways long thought to be impossible by students of complex organizations. The well documented dis-entrenchment of traditional school authorities that went hand in hand with the introduction of experimentalist school reform in the US is a case in point. Through the 1990s public schools were widely referred to in the US debate as an example of the un-reformability, by democratic means, of a key institution of democracy: Because successive cohorts of elected school authorities (the principals) entrenched conflicting rules favoring their separate values and interests, the interests groups (agents) running the school system were free to do whatever selfish impulse suggested (Chubb and Moe 1990). Coalitions of disaffected insiders and outsiders imposed the governance and organizational innovations described above, and the combination of decentralization of authority and transparency thus afforded has, so far, prevented a clandestine reassertion of power by new or old interests. That there are no conspicuous limits to this reform movement in those place where it has been undertaken does not mean of course that it will be automatically extended to include fully clients and citizens in decision making—a problem to which we will return (but not resolve) momentarily.

Reference to the transparency of the school reporting regime points to a second a deeper response to the worry about manipulative, sham reform. Because they are polycentric or polyarchic, experimentalist institutions are always out of reflective equilibrium: Inevitable variations in the performance of the various units provokes ongoing review and criticism of each in the light of the others' experience.⁹ This means that professionals—technocrats of all stripes—and the more or less formally organized interests with which they are affiliated must frequently explain why their actions differ from those of peers in like situations. Experts and interests, in other words, must justify themselves, again and again, in public, to deeply informed challenges to, respectively, their expertise and their claims of the legitimacy (or at least inevitability) of their interpretation of what their needs compel. Contrast this idea of continuing contestability of professional expertise in particular with the conventional

⁹ Recall in this connection the emphasis pragmatist institutions put on diagnostic monitoring as opposed to global measures of output typical of NPM.

presumption that fully certified professionals are qualified to make complex decisions on the basis of their own informed judgment alone, and are answerable to colleagues only if there is suspicion of negligence. Experimentalism thus seems more like a machine for disrupting potential conspiracies, especially technocratic cabals, than a scaffolding for erecting them.

Note further that from this perspective it is possible to distinguish advantageously democracy built on experimentalist institutions from two near cousins, associative and deliberative democracy: two other, and more familiar alternatives to the form of representative government we know.¹⁰ Associative democracy assumes that the cooperation of certain groups—classically, labor and capital—is indispensable to the public interest. Such groups are accordingly given quasi-constitutional authority to bargain with each other, under the auspices of and in consultation with the government, in view of promoting public-regarding outcomes. But however effective and legitimate such arrangements may have been, it is clear today that associative democracy rests on the same flawed assumption of the panoramic powers of the sovereign principal that brings NMP, among reform efforts, to fall. It has proven in practice no more possible to identify which groups are the necessary and sufficient parties to public cooperation than to identify public principals who ‘know’ what is to be done in regard to particular reform projects. Experimentalist democracy, in contrast, is no more inclined to presume that the circle of participation in decision making is fixed than to treat any body of expertise as self validation. It is thus not hostage to the once-and-for all guesses about the identity of the ‘natural’ social partners that have in time paralyzed associative democracies.

Deliberative democracy, as its name suggests, is not hostage to interests. Quite the contrary: Its aim is to so abstract decision making from the trammels of everyday necessity that the decision makers are free to engage such deep reflection that their prior ideological or material preferences (if they had them at all) are likely to get sacrificed to the demands of public reason. In its purer, Madisonian forms, deliberative democracy is inclined to entrust power to a magisterial or senatorial elite, protected by wealth or tenure of office from the tugs of personal advancement or factional scheming. The classic stumbling block for deliberative democracy is thus not to disentrrench interest groups, but rather to connect, yet not simply subordinate the deliberative elite to the everyday cares and concerns—the interests—of the everyday citizens of democracy.

Here too experimentalist democracy is promising. Like deliberative democracy, it induces citizens to change their preferences. But it aims to do this not by having the participants remove themselves from the world, but rather by opening themselves to it in a new, practically deliberative way: The mutual learning that grows out of and fosters problem

¹⁰ For further discussion see Cohen and Sabel 1997; Cohen and Sabel 2003; Gerstenberg and Sabel 2002.

solving in pragmatist institutions brings the actors to change their view of possibilities even as they put their identities at risk by reorienting their goals, their ideas of potential collaborations, and their understanding of fruitful problem-solving strategies. If this is too good to be true—because it assumes inhuman plasticity of the all-too-habit-bound human self—consider that individuals and groups only turn to pragmatist problem solving when pervasive uncertainty has thoroughly undermined their confidence in their inveterate problem-solving strategies (the market, more government) and the ideologies that articulate them. The determination to govern ‘from the second line’ in the Netherlands, for example, surely did not emerge from an insouciant delight in novelty. We do not go to the trouble of creating the elaborate learning institutions described above unless we think we have something to learn. Acknowledging our need to learn, we are less disposed to manipulate strategically the information we give and get, and the resulting surprises loosen the bonds of habit.

Thus where associative and deliberative democracy can be said to be inherently exclusive (of interest groups or practical interests), experimentalist democracy is at least *potentially* inclusive. Instead of addressing the plainly pertinent questions of whether and under what conditions experimentalist democracy might actually realize this potential, let me switch from general to practical themes and consider finally the possibility of an immediate, institutional response to the problems of accountability posed by the spread of public problem solving on pragmatist lines. An institutional response to the question of accountability is not of course substitute for a compelling theoretical justification. But in the history of democracy it has often been the case that institutional reform outran, and became a spur to theoretical reflection (think of the incorporation of organized interest groups into parliamentary regimes in roughly the first half of the last century). There are signs that this could be about to happen again, and in the Netherlands perhaps sooner than elsewhere.

From the institutional perspective a key condition of a shift towards experimentalist democracy is a change in the roles and relations of parliament and the administration. In the current principal/agent scheme parliament, mindful of the limits to its legislative capacity, delegates to an administrative entity the responsibility for the bootless task of detailed rule making, and periodically reviews the results. In experimentalist democracy, parliament makes framework laws committing society to broad goals—the provision of an adequate education to all. Administration provides the infrastructure (and eventually the enforcement discipline) with the help of which agents are able (and when necessary can be motivated) to set and revise standards in light of what they learn from pooling their efforts to improve. Parliament regularly reviews the results. So parliament in experimentalist democracy retains its centrality as that body most able to make the most comprehensive commitments to give effect to public values, and to reassess those commitments, values, and means of effecting

them.¹¹ Whether parliament is able to make more effective use of this centrality in experimentalism than it has of late in principal/agent governance depends naturally on whether the new administration can actually shift from rule making to the facilitation of pragmatist learning, and do this in a way that makes the civil society actors accountable to parliament even as they are to make themselves accountable. We are a long way from knowing whether such a vast reorientation will be undertaken, let alone succeed. But there is already evidence that the possibility of such a shift is being contemplated by a key actor in Dutch governance: the ministerial inspectorates.¹²

The role of the inspectorate is traditionally to ensure that administrative rules are observed in practice across the whole sweep of their ministry's jurisdiction: they enforce enforcement. But as the enforcers' enforcer the inspectors were also among the first to register the limits of governing by detailed rule, but still of general making, from the 'first line'. In time many of them became de facto grantors of waivers, allowing administrative bodies to desist in the application of the rules, in return, presumably, for some assurance that the regulated party was striving to achieve the larger purpose of the law given the particulars of its situation. More recently some of the inspectors have become quiet advocates of framework regulation. In time they could become champions of administration as information pooler, helping to create a system by which the civil society actors and parliament can build on the knowledge of opportunities and obstacles to improvement that until now has accumulated as a side product of the evaluation of compliance.

So as Dutch citizens insist on democratic renewal, and as the government contemplates radical changes in governance to provide the new social services that can underpin national solidarity, a key agent in traditional bureaucracy is urging convergent transformation of the administration. If ever bridges can be burned prudently, with full respect for democratic obligations, the Dutch have done so. What lies behind no longer works. The promise of the new pragmatist institutions is that we can learn together, and in a democratically accountable way, what will.

¹¹ We leave the coordinate changes in role of the judiciary to another time (for discussion in the US setting see Simon and Sabel 2004).

¹² See www.andereoverheid.nl/de_projecten/minder_en_anders/samenwerkende.

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