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## Like Humans Need Oxygen, Bureaucrats Always Need More Money

By: Alejandro Chafuen – February 27, 2013

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My first consulting job, fresh out of college, was for Arthur D. Little, a consulting firm founded in 1909, in Boston. The task was to evaluate the management of the Ministry of Economics in Argentina during the late '70s. What I learned by interviewing bureaucrats had great impact on my views of entrepreneurial work in the not-for-profit sector.

I approached those meetings after having studied “Bureaucracy–Servant or Master?” by the late William Niskanen, former Chairman of the Cato Institute, as well as the works by the late James Buchanan and Gordon Tullock. They used the term “Public Choice” to describe their contributions. Their “theory of bureaucratic decision making” (I prefer that term) describes how bureaucrats make the choices (not the public).

One of the distinguishing aspects of their analysis is to ask, “what would happen if we assume that bureaucrats are also motivated by narrow self-interest?” Their answers helped understand and better predict the outcome of actions by politicians and government agencies. They also led to a Nobel Prize for James Buchanan in 1986.

In analyzing the bureaucracy of the ministry, there was one question that all but one of the officials I interviewed answered in the same way. Question: What does your area need to perform better? Answer: “more money.” Follow up question: for what? Answer: “to hire more capable staff.” One of the undersecretaries, Jorge Eduardo Bustamante, who since then earned my admiration, was the sole exception: “my department should be eliminated, it only creates barriers for free enterprise, I need political support to close it.”

Having spent almost my entire professional life around intellectual entrepreneurs in the not-for-profit sector, both as a grant seeker and grant giver, I often found the same type of responses. This should be no surprise. The self-interest paradigm does not go into quarantine when one joins or leads a non-profit. In requests for funding, many think tank leaders state that their most important institutional need is “more funding to hire more people.”

Noted free market economists have applied economic analysis to study non-profits. James Bennett and Tom Di Lorenzo write in the “Encyclopedia of Public Choice” that the larger the non-profit, the stronger the chance that charitable activity would be “undertaken primarily as an adjunct to the fund raising function.” They added: “Many programs are not intended to benefit the public but rather to give publicity to the organization to aid fund raising. Small, local charitable organizations serving a specific clientele and operated mainly by volunteers and religious institutions tend to be more charitable in the traditional sense.”

Abdiweli M. Ali, a former Bradley fellow at the Center for the Study of Public Choice (founded by the late James Buchanan), at George Mason University, wrote an academic paper describing the similarities between bureaucracies and charities. Having worked in his native Somalia in several bureaucracies, from the lower ranks to prime minister, he also studied and taught at several non-profits in the United States. Ali argues that to better analyze charities we have to take into account the self-interest motivations of donors and managers.

Another similarity with the bureaucratic sector is the reticence of non-profit leaders to let go of programs, especially if they can continue to get funding for them. Peter Drucker wrote that there is a church-like attitude: All programs are regarded as sacred. During regular strategic planning meetings talented intellectual entrepreneurs need to devote time to analyze what programs should be cut, spun-off, or re-structured. They should take Drucker's explanation as a guide: "entrepreneurship rests on a theory of economy and society. The theory sees change as normal and indeed as healthy. And it sees the major task in society—and especially in the economy—as doing something different, rather than doing better what is already being done."

Big improvements have been made in the non-profit area I know the most: free-enterprise think tanks. Special efforts, such as implementing varieties of "market based management," a term coined and trade-marked by Charles Koch, have encouraged think tanks to operate more as a business. As the think tank industry matures, donors are becoming more demanding. The answers from grant seekers are becoming more sophisticated. The need for more money should be preceded by understanding the need for better management and strategy, improved knowledge about customers and outcomes, and other aspects of the operations of an agency or a charity.

Charities, especially those that do not depend on government, have often faced the need to adjust and have to work with less money. The best in their midst use the opportunity to innovate. Innovation is, in Drucker's words, that "specific instrument of entrepreneurship" which "endows resources with a new capacity to create wealth." If there is indeed an unprecedented all-across reduction in budgets, a new incentive might exist for an increase in "public entrepreneurship," of the kind described by Elinor Norstrom (also a late Nobel Laureate, 2009). In the areas where bureaucracies have a legitimate role, better "public entrepreneurs" would be welcome news. In the others, a withering away would be even better. Not all bureaucracies need more money.