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Bureaucratic Efficiency and the Cost of Red Tape

This report offers a comprehensive approach to the concept of Red Tape, details the ways in which state governments around the country have attempted to remedy the problem of inefficient regulatory processes, and examines the effect of red tape specific to administrative agencies in the state of Vermont.

Defining Red Tape

Red tape may be defined as “rules, regulations, and procedures that remain in force and entail a compliance burden but do not serve the legitimate purposes the rules were intended to serve.”¹ Red tape is not the whole regulatory process in its entirety, instead it is the burdensome, inefficient, and formalized rules that are placed on an administrative agency that prevent that agency from effectively and efficiently operating.²

**Why Governments Struggle to Overcome Organizational
Redundancies and Excessive Costs**

Efficiency has been a “cherished administrative value” and a “key concept” in studying public administration since the Progressive Era.³ Current trends in analyzing public administration and government quality have included criteria such as “responsiveness” and “equity;” however “efficiency” remains a “guiding governmental value.”⁴ Contemporary literature on government efficiency indicates that the term “efficiency” is often conceptualized as an “apolitical value.”

¹ Barry Bozeman, *Bureaucracy and Red Tape*, Upper Saddle River, NJ, Prentice Hall Books, 2000, p. 12.

² Barry Bozeman, *Bureaucracy and Red Tape*, p. 12.

³ Hindy Schachter, “Does Frederick Taylor’s Ghost Still Haunt the Halls of Government? A Look at the Concept of Governmental Efficiency in Our Time,” *Public Administration Review*, September/October 2007, accessed April 10, 2012, <http://onlinelibrary.wiley.com/doi/10.1111/j.1540-6210.2007.00768.x/pdf>, p. 800.

⁴ Hindy Schachter, “Does Frederick Taylor’s Ghost Still Haunt the Halls of Government? A Look at the Concept of Governmental Efficiency in Our Time,” p. 800.

“Efficiency” is understood as a question of the cost-benefit analysis of input and output factors.⁵

Political views affect efficiency calculations since the inputs and outputs, which “count” in the calculations to measure efficiency, involve political decisions. Whether state funds are being used efficiently depends on what factors matter in the calculation of outcomes. Take for example public transit: the capital and maintenance costs of transit rail can be compared with a range of outcome factors such as the return from user fares, the development of surrounding communities, the value of surrounding commercial and residential properties, greenhouse gas emissions, job creation, road maintenance costs, costs associated with traffic and traffic accidents, and the physical spatial difference between socio-economic class communities. These factors all are possible outputs for analyzing whether state funds are being used efficiently, and yet they are also subject to political debate. It is important to recognize this fact in judging government efficiency. Some of the consequences of not doing so include the following:⁶

- expenditures on citizen involvement are viewed as unnecessary costs of time and money.
- clear choices are not made about what factors ought to count in analyzing efficiency.
- politicians and managers are dichotomized: politicians are distinguished for their political values and managers for being rational actors.
- at-will employment is favored over civil service protection and long-term public employment.
- sacrificed considerations for the sake of simplicity in order to adhere to the cost-benefit analysis model.⁷

Standards for Bureaucratic Performance

Bureaucracies at the state level implement most of the legislation approved by state governments. Implementing state programs increasingly involves multiple agencies working with each other to accomplish a single task. State bureaucrats do more than simply administrate state legislation. Administrators help develop solutions to problems on the policy agenda, provide specialized information to elected officials during policy debate, choose how to best implement the adopted legislation, and secure compliance of groups or individuals affected by the adopted legislation.⁸

⁵ Hindy Schachter, “Does Frederick Taylor’s Ghost Still Haunt the Halls of Government? A Look at the Concept of Governmental Efficiency in Our Time,” p. 800.

⁶ Hindy Schachter, “Does Frederick Taylor’s Ghost Still Haunt the Halls of Government? A Look at the Concept of Governmental Efficiency in Our Time,” p. 800.

⁷ Mark Glaser, Samuel Yeager, and Lee Parker, “Involving Citizens in the Decisions of Government and Community: Neighborhood-Based vs. Government-Based Citizen Engagement,” *Public Administration Quarterly*, Summer 2006.

⁸ Richard C. Elling, “Administering State Programs: Performance and Politics,” in *Politics in the American State: A Comparative Analysis*, edited by Virginia Gray, Russell L. Hanson and Herbert Jacob, 267-303, Washington, DC, Congressional Quarterly Books, 1999, p. 268.

Evaluations of state bureaucracy are not measured on standard criteria, which may lead to conflicting, and often incorrect, judgments about bureaucratic performance. Four different standards for bureaucratic performance include:⁹

1. Cost: The amount of money a state agency requires to operate.
2. Efficiency: The extent to which the agency gets the most out of allocated resources.
3. Effectiveness: The extent to which an agency accomplishes its specified goal or purpose.
4. Public-Political Accountability: The legality/constitutionality of an agency's action coupled with responsiveness to the goals of the legislative body and the people who are affected by agency programs.¹⁰

Public Versus Private Bureaucracy

Both public and private organizations must work with rules and regulations that may, at times, inhibit efficient operation. The existing literature on the subject, however, indicates that public bureaucracies are subject to more red tape than private bureaucracies.¹¹ Unlike private bureaucracy, public organizations are affected, to a great degree, by informal red tape. That is, red tape caused by the influence, not formal rules, of key bodies in the political system such as the media, public opinion, political parties, interest groups, and public officials.¹² Also, public organizations are held accountable by a significantly larger population than are private organizations. "All explanations for greater public sector red tape either directly or indirectly reflect this enormous and complex accountability. Extensive rules, regulations, and procedures help ensure that public programs reflect the will of the people and protect the rights of countless interests of the general public."¹³ This difference in red tape has led to a trend of greater privatization of governmental services in an attempt to limit the adverse effects of burdensome organizational regulations.

Potential Negatives of Bureaucratic Privatization

While there has been an increase in states contracting services to the private sector, there are some potential negatives that must be considered. Overall cost often declines in many cases, but sometimes this occurs because the quantity or quality of service being provided has also declined. A private company's drive to make a profit may be more important than providing a quality service.¹⁴ Contracting state services may induce competition between potential

⁹ Richard C. Elling, "Administering State Programs: Performance and Politics," p. 268.

¹⁰ Richard C. Elling, "Administering State Programs: Performance and Politics," p. 268.

¹¹ J. Norman Baldwin, "Perceptions of public versus private sector personnel and informal red tape: their impact on motivation," *American Review of Public Administration* 20 (1), 1990, p. 7.

¹² J. Norman Baldwin, "Perceptions of public versus private sector personnel and informal red tape: their impact on motivation," p. 8.

¹³ J. Norman Baldwin, "Perceptions of public versus private sector personnel and informal red tape: their impact on motivation," p. 10.

¹⁴ Richard C. Elling, "Administering State Programs: Performance and Politics," p. 277

providers. In many cases, however, the competition among qualified providers is often absent; this especially occurs with highly specialized services or in less populated areas.¹⁵ Another significant issue of contracting state services is that corruption and awarding contracts on the basis of political support can subvert the process.¹⁶ Finally, after the state and the service provider have agreed upon a specific contract, monitoring of contractor performance and auditing contractor records is expensive and may well exceed 10% of a contract's value.¹⁷

Bureaucracy Review and Reform in Other States

Several states have established commissions to assess the overall functional efficiency of a state's bureaucracy and develop recommendations for improvement.¹⁸ Arizona, Washington, and Connecticut are three states that serve as examples of this type of red tape review and offer potential approaches to reform. These commissions developed the following strategies: merging, streamlining, privatizing, and budgeting for outcomes. These approaches to reform are believed to enhance efficiency of state bureaucracy.¹⁹

Arizona

Governor Jan Brewer announced upon taking office that she would establish the Commission on Privatization and Efficiency (COPE). According to Gov. Brewer, "COPE will identify state services and agencies whose functions can be eliminated, consolidated, streamlined or outsourced to achieve greater operational efficiency in meeting the needs of our citizens."²⁰ The commission made sixteen recommendations including: pension reform,²¹ adopting a priority/outcome-based budgeting process,²² privatizing operation and management of the Arizona lottery,²³ and transferring or merging the Bingo Administration and Tobacco Enforcement to or with another agency.²⁴ The recommendations heavily favor privatization, citing that private management tends to waste less money, especially in the case of the state lottery. The recommendation to "adopt a priority/outcome-based budgeting process" delves into the way Arizona sets its state budget and recommends performance evaluation over baseline budgeting:

¹⁵ Richard C. Elling, "Administering State Programs: Performance and Politics," p. 277

¹⁶ Richard C. Elling, "Administering State Programs: Performance and Politics," p. 277

¹⁷ Richard C. Elling, "Administering State Programs: Performance and Politics," p. 277

¹⁸ Jennifer Burnett, "State Governments Activity Report: Efficiency and Streamlining Commissions," March 8, 2011, The Knowledge Center, Council of State Governments, accessed March 2012, <http://knowledgecenter.csg.org/drupal/content/state-governments-activity-report-efficiency-and-streamlining-commissions>.

¹⁹ Jennifer Burnett, "State Governments Activity Report: Efficiency and Streamlining Commissions."

²⁰ Governor Jan Brewer, "Arizona State of the State Address," January 11, 2010, accessed April 16, 2012, <http://www.azcope.gov/default.htm>.

²¹ Arizona Commission on Privatization and Efficiency, "Final Report to Governor Janice K. Brewer," July 2011, accessed March 2012, <http://www.azcope.gov/FinalreportJuly2011.pdf>, p. 3.

²² Arizona Commission on Privatization and Efficiency, "Final Report to Governor Janice K. Brewer," p. 11.

²³ Arizona Commission on Privatization and Efficiency, "Final Report to Governor Janice K. Brewer," p. 5.

²⁴ Arizona Commission on Privatization and Efficiency, "Final Report to Governor Janice K. Brewer," p. 43.

In Arizona, like most other states, budgets are typically developed by adjusting the current budget for inflation and caseload increases—so called baseline budgeting—but this process takes discretion and performance evaluation out of the mix entirely. In normal fiscal times, the budget tends to be built on the premise that last year’s dollar was a good dollar spent, so this year a given agency or program should spend what it did last year, and then some.²⁵

A handful of states, counties, cities, and school districts, as shown in Figure 1, are now using evaluative and outcome based budgeting system.²⁶ Washington State offers a working model of “budgeting for outcomes,” a plan COPE highly recommends and a plan aimed at bettering bureaucracy and the budgeting system in the state of Arizona.²⁷

States	Counties
Washington Iowa South Carolina Michigan Louisiana	Snohomish, WA Multnomah, OR Mesa County, CO Polk County, FL Larimer County, CO Coconino County, AZ
Cities	School Districts
Azusa, CA Spokane, WA Dallas, TX Ft. Collins, CO Northglenn, CO Redmond, WA Eugene, OR Savannah, GA Baltimore, MD Tacoma Metro Parks, WA	Jefferson County, CO Billings, MT

Figure 1. Jurisdictions Applying Budgeting for Outcomes

Source: David Osborne, “The Next California Budget: Buying Results Citizens Want at a Price They Are Willing to Pay,” Policy Study 380, Reason Foundation, April 2010, p. 2.

Washington

Washington State’s program “Budgeting for Outcomes” has been deemed so successful the 2011 Arizona COPE recommended modeling their state budgeting off of Washington’s

²⁵ Arizona Commission on Privatization and Efficiency, “Final Report to Governor Janice K. Brewer,” p. 11.

²⁶ Arizona Commission on Privatization and Efficiency, “Final Report to Governor Janice K. Brewer,” p. 11.

²⁷ Arizona Commission on Privatization and Efficiency, “Final Report to Governor Janice K. Brewer,” p. 11.

program.²⁸ Budgeting for Outcomes was first used by Governor Gary Locke in Washington in 2003 and was named the “Priorities of Government” (POG) model. At the time, Washington State was facing a \$2.4 billion budget shortcoming and significant budget modifications were the priority.²⁹ The Locke administration called for an in-depth evaluation of what services the government provided. They were interested in implementing priority-based budgeting to close the deficit of \$2.4 billion without raising taxes. In the past, legislators would have started with the baseline budget and focused on cutting programs or raising taxes until the general fund matched the forecasted revenue, the so called “cost-plus budgeting system” most states use. They brought in a consultant David Osborne — known for working on Vice President Al Gore’s Reinventing Government plan at the federal level during the Clinton Administration.³⁰ The Public Strategies Group and the Locke Administration created the POG approach where the state would prioritize services and determine the most important things to buy or deliver for the dollars invested.³¹ The POG is still in use in Washington State by Governor Chris Gregoire’s Administration. The key benefits of the POG approach is providing legislatures with relevant performance information that can be applied to budget choices. The approach also helps frame the question, “Are we sure we’re buying things at the best possible price?”³²

Connecticut

The Commission on Enhancing Agency Outcomes (CEAO) was created in the state of Connecticut to “identify functional overlaps and other redundancies among state agencies and promote efficiency and accountability in state government.”³³ The commission was tasked with identifying ways to eliminate overlaps and redundancies.³⁴ The commission had the goal of reducing costs to the state of Connecticut while improving the quality and accessibility of state services. The commission found areas of waste and then recommended appropriate mergers of state agencies or ways to streamline state operations. The report includes a list of thirty potential savings ideas recommended by the commission. “The total estimated savings in FY 11 from these proposals is \$228,941,015 - \$229,941,015 and \$241,145,570 - \$247,658,418 for FY 12.”³⁵ The commission also developed a list of fifteen proposals that may not directly save the state money but have the potential to enhance agency outcomes, getting more from the money already being spent. The commission recommended merging state agencies such as (1) the Departments of Mental Health and Addiction Services and Social Services, and (2) the

²⁸ Arizona Commission on Privatization and Efficiency, “Final Report to Governor Janice K. Brewer,” p. 11.

²⁹ Governor Gary Locke’s Remarks, Priorities of Government News Conference, November 14, 2002, <http://www.digitalarchives.wa.gov/governorlocke/speeches/speech-view.asp?SpeechSeq=372>.

³⁰ Arizona Commission on Privatization and Efficiency, “Final Report to Governor Janice K. Brewer,” p. 11.

³¹ Priorities of Government Schematic, Washington Office of Financial Management, accessed April 2012, <http://www.ofm.wa.gov/budget/pog/documents/schematic.pdf>.

³² Priorities of Government, Washington Office of Financial Management, accessed April 2012, <http://www.ofm.wa.gov/budget/pog/>.

³³ Connecticut Commission on Enhancing Agency Outcomes, accessed April 2012, <http://www.cga.ct.gov/gae/CEAO/>.

³⁴ Connecticut Commission on Enhancing Agency Outcomes, Final Report, December 30, 2010 accessed April 2012, http://www.cga.ct.gov/gae/CEAO/docs/2010/CEAO_Final_Report_Tuesday_Jan_3.pdf.

³⁵ Commission on Enhancing Agency Outcomes, Final Report, p. 12.

Connecticut Commission on Culture and Tourism of the Office of Workforce Competitiveness and the Department of Economic and Community Development.³⁶ CEAO's findings are examples of in-depth review of state agencies yielding ideas for merging, streamlining, and ultimately saving the state money and potentially improving services.³⁷

Vermont's State Budget Process

Vermont's state budget process has five components: the work of the budget and the management division, the financial analysis of the actual and projected expenditures and revenues, the preparation of the budget, the submission of the budget to the general assembly and legislative deliberation, and the budget's implementation.³⁸ The work of the budget, the Governor's annual budget recommendations for the state of Vermont, is the responsibility of the Commissioner of Finance and Management, the staff of the Budget and Management Division, and agency and departmental budget staff.³⁹

Vermont's budgeting process is an on-going, annual cycle that ends and begins again with the state's fiscal year, which runs from July 1 to June 30.⁴⁰ At the end of a fiscal year, financial data for each agency, department, and program are reviewed by the Budget and Management staff and this information is used to determine recommendations for changes in the budget of the current fiscal year, as well as recommendations that will assist in the development of the Governor's budget proposal for the upcoming fiscal year.⁴¹

The Governor, along with his or her senior staff, reviews the results of the financial analysis and develops budget allocations and instructions that are distributed in September and October to each agency and department. The agencies and departments then, using the Budget Development System (BDS), develop their budget requests. BDS is a tool to help agencies develop budget requests online. The system allows agencies to look at different budget decision packages and play around with various scenarios that differ in expenditures, staffing, revenue estimates, and incremental performance changes.⁴²

In November, the staff members of the Budget and Management Division review the proposed budgets of the various agencies and departments and make any necessary adjustments. After the Governor has reviewed the budget a final time, the Budget and Management Division prepares the Governor's recommended budget proposal as a draft Appropriations Bill and an

³⁶ Commission on Enhancing Agency Outcomes, Final Report, p. 5.

³⁷ Commission on Enhancing Agency Outcomes, Final Report, p. 10.

³⁸ Vermont Department of Finance and Management, "State Budget Process," modified 2012, accessed April 5, 2012, http://finance.vermont.gov/state_budget.

³⁹ Vermont Department of Finance and Management, "State Budget Process."

⁴⁰ Vermont Department of Finance and Management, "Glossary of State Budget and Account Terms," modified 2012, accessed April 5, 2012, http://finance.vermont.gov/faq/state_glossary.

⁴¹ Vermont Department of Finance and Management, "State Budget Process."

⁴² Office of Financial Management, "Budgeting and Legislative Systems," last modified 2012, accessed April 5, 2012, <http://www.ofm.wa.gov/isd/budgetsys.asp>.

Executive Budget Book that is then presented to the legislature when they convene in January. The budget is proposed to the legislature for deliberation and upon the Appropriations Bill's passage, in both the House and the Senate, the bill is forwarded to the Governor. Budget implementation begins when the bill becomes law. Change in the current year's budget is enacted through a Budget Adjustment Act.⁴³

The Regulation of Industries Particular to Vermont

Telecommunications

Regulation of the telecommunications industry comprises many different forms, most of which are formed and implemented at the state level of government. These include setting retail rates, ensuring customer access to telecommunications services, and enforcing quality standards.⁴⁴ This regulation is predicated on the idea that utility markets such as the telecommunications industry are natural monopolies and therefore "not subject to effective competition, or that competitive markets may not produce socially desirable results."⁴⁵ Since the federal Telecommunications Act of 1996, many states have seen movement towards deregulation of some aspects of the industry, purportedly aimed at allowing more competition that would lead to decreased prices for consumers.⁴⁶

The main cost of regulating the telecommunications industry is the hindrance to competition it places on the market. By fixing retail rates and making entry into the industry difficult for new providers, state regulation can maintain inordinately high prices. Furthermore, regulation can also preclude investment and innovation.⁴⁷

In response to these costs, many states have proposed, and in some cases passed legislation repealing regulations on the telecommunications industry. New technology such as cellular phones and the Internet provide competition deemed adequate for deregulation. This strategy is meant to relieve barriers to competition, and allow standard economic forces, rather than state bureaucracy, to regulate the market.⁴⁸ One state effort to save money and streamline the regulatory process is the Florida Regulatory Reform Act of 2011, which completely eliminated

⁴³ Vermont Department of Finance and Management, "State Budget Process," last modified 2012, accessed April 5, 2012, http://finance.vermont.gov/state_budget.

⁴⁴ The National Regulation Research Institute, "What to Think About When You Think About Telecommunications Deregulation," last modified April 2005, Accessed April 2012, <http://www.nrri.org/documents/317330/1669a74d-ff15-4540-a67f-5121fdf18822>.

⁴⁵ The National Regulation Research Institute, "What to Think About When You Think About Telecommunications Deregulation," p. 3.

⁴⁶ The National Regulation Research Institute, "Four Key Trends in Telecommunications," last modified November 2011, accessed April 2012, <http://www.nrri.org/documents/317330/a9505223-2cb2-40bf-b820-d5c6811e0620>.

⁴⁷ The National Regulation Research Institute, "What to Think About When You Think About Telecommunications Deregulation."

⁴⁸ The National Regulation Research Institute, "Four Key Trends in Telecommunications," p. 20.

price restrictions on the telecommunications industry.⁴⁹ Although it is too soon to judge the effects of this legislation in Florida, a similar deregulation bill was passed in California in 2006. After careful study, the telecommunications marketplace in California was deemed “sufficiently competitive to guarantee customer choice.”⁵⁰ In other words, it is relatively easy for customers to switch providers if they are unhappy with the price or quality of their service. One would expect this to lead to lower prices post-deregulation, as competition would drive down the rates, however telecom retail rates in California actually increased after this regulatory reform. Michael Peevey, the chairman of the California Public Utilities Commission, attributed this rise in prices to market fluctuations due to the recent deregulation, and claimed that once equilibrium is reached prices would be lower.⁵¹

The current state of telecommunications regulation in Vermont requires all companies that provide these services to register with the Vermont Department of Public Service. They also must obtain this department’s approval for the prices, terms, and conditions of these services. This makes it difficult for companies to increase their prices and modify their services, especially for FairPoint, Vermont’s largest telecommunications provider.⁵² This regulation is clearly designed to protect consumers from the dangers of natural monopoly; however, it may be a hindrance to competition amongst companies in the industry. The National Regulatory Research Institute, a think tank that provides high-quality research for state utility regulators, counsels state administrators to base the decision to deregulate the telecommunications market on the number of providers that consumers have access to, and the ease with which they can switch between them.⁵³

Conclusion

Concern over the size and efficiency of state government becomes particularly significant in times of economic recession and recovery from downturns. Ideas for reform range from privatization to merging and streamlining departments or agencies. The diversity of situations, problems, and budgets across state government, however, prohibit a comprehensive and uniform strategy for enhancing bureaucratic efficiency and effectiveness. Regulations that were put in place originally to benefit citizens, without review and reform, over time and under changing conditions may become burdens on the state budget. This report has provided a fundamental overview on the problem of bureaucratic efficiency, identified the ways in which

⁴⁹ Florida Public Service Commission, Division of Regulatory Analysis, “Report on the Efforts of the Florida Public Service Commission to Reduce the Regulatory Assessment Fee for Telecommunications Companies,” last modified December 2011, accessed April 2012,

http://www.psc.state.fl.us/publications/pdf/telecomm/2011_RAF_report.pdf.

⁵⁰ California Public Utilities Commission, “Gaps Emerge in Telephone Consumer Protections,” last modified 16 July 2010, accessed April 2012,

<http://www3.senate.ca.gov/deployedfiles/vcm2007/senoversight/docs/Gaps%20Emerge%20Report%20pdf>.

⁵¹ California Public Utilities Commission, “Gaps Emerge in Telephone Consumer Protections,” p. 12.

⁵² Vermont Department of Public Services, “Telecommunications,” accessed April 2012,

<http://publicservice.vermont.gov/telecom/telecom.html>.

⁵³ The National Regulatory Research Institute, “Four Key Trends in Telecommunications,” pp. 16-20.

bureaucratic effectiveness may be measured, and offered several examples of how various entities attempt to remedy the problem of bureaucratic inefficiency.

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