
Win-Win Performance Pay

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Since at least the beginning of the Clinton-Gore administration, there has been a move toward developing new ideas for making government more effective, efficient, and equitable, especially more efficient. This movement is sometimes referred to as reinventing government. Much of the so-called innovation, however, may be new water in old bath tubs without the benefit of Archimedes creativity.

Nevertheless, some of the newness in public administration is both innovative and useful. Some of it is useful or valuable in both a conservative and liberal sense. That qualifies some of the reinventing as win-win.

To be more specific, there are at least two important developments in recent public administration that have win-win capabilities. One is win-win performance payment. The other is win-win vouchers and contracting out.

The purpose of this chapter is to give four examples of win-win performance payment with regard to economic, technology, social, and political policy.

I. ECONOMIC POLICY

The economic example relates to regulating the stock market. A key problem in securities regulation is the problem of stockbroker churning. That is the activity where stockbrokers encourage people to buy more stock than they should because the broker gets more commissions, or to buy not-so-desirable stock that pays a higher commission.

This analysis was stimulated by the news reports saying the Prudential brokerage firm had swindled its customers out of billions of dollars by lying to them regarding stocks that Prudential was selling. The Security and Exchange Commission (SEC) negotiated a settlement to compensate customers who had suffered losses.

The conservative position is to be lenient. Doing so is conducive to the goals of minimizing regulation, leaving it up to the marketplace, and let the buyer beware. The liberal position is to be more severe, which is a reversal of positions from the reactions to street crimes. In the Prudential case, liberals wanted criminal prosecution or at least punitive damages.

The middling position was a settlement that provided for no punitive damages, but a waiving of the short statute of limitations, which would normally exclude many customers from being compensated.

The amount of money likely to be repaid is substantially less than the amount swindled. This implies a double standard toward big business swindlers. One could, however, argue that it is a double standard against relatively rich customers.

It is normally not desirable to have an SOS solution where criminal or near-criminal wrongdoing is involved. Doing so rewards the defendant and may defeat the deterrent value of punishment.

An SOS approach to business wrongdoing that is sometimes effective is to have government-stimulated competition. That could be done in this situation. The SEC could authorize ordinary commercial banks to buy and sell stock on behalf of their customers. Doing so would reduce the power of stock brokerage firms to abuse their customers. The threat of banks entering the brokerage industry might also cause more self-policing within the brokerage industry. See Table 3-1.

TABLE 3-1. STOCK BROKERAGE SWINDLES

GOALS	C	L
ALTERNATIVES	Minimize regulation	Deterrence of business wrongdoing
C		
Be lenient	+	—
L		
Be severe	—	+
N		
In between	0	0
SOS OR WIN-WIN		
Encourage competition by banks	++	++

II. TECHNOLOGY POLICY

The technology example of win-win performance payment relates to regulating some of the bad effects of old and new technologies. A key problem in technology regulation is the problem of air, water, and other pollution.

The field of environmental policy involves both conservative and liberal approaches. Conservatives emphasize the role of consumers and the marketplace in restraining business from engaging in socially undesirable activities, like pollution. The liberals emphasize the role of the government in restraining pollution. Conservatives are especially interested in the goal of economic development, which may be interfered with by government restraints. Liberals are especially interested in the goal of a cleaner environment, which may not be achieved so effectively by relying on selective consumer buying.

A neutral compromise approach might involve giving business firms partial subsidies to adopt antipollution devices. Doing so would involve some requirements for receiving the subsidies, but less interference than regulation and fines. Doing so would help promote a cleaner environment, but there still might be evasions by business in view of the extra expense and trouble in complying.

A win-win policy alternative instead might emphasize subsidies to universities and research firms to develop new processes (that relate to manufacturing, transportation, energy, and agriculture) that are both less expensive and cleaner than the old processes. Those new processes then would be adopted by business firms because they are more profitable, not because the firms are being forced or subsidized to do so.

The new processes thus would achieve the conservative goals of profits and economic development, even better than retaining the present marketplace. Such a win-win policy also would promote the liberal goal of a cleaner environment, even better than a system of regulation and without the expense of a continuing subsidy for adopting and renewing anti-pollution devices.

A specific example of such an environmental win-win policy has been finding a substitute for aerosol propellants and air-conditioning freon that is more profitable to manufacturers and simultaneously less harmful to the ozone layer, which protects against skin cancer. Another specific example is developing an electric car, which saves money on gasoline and maintenance, while at the same time not generating the exhaust pollution of internal-combustion cars. Developing hydrogen fusion or solar energy also may be examples of a less expensive and cleaner fuel for manufacturing processes.

Table 3-2 applies the generic matrix to the problem of environmental protection, especially in developing nations. The main conservative goal is economic development and the main liberal goal is a clean environment. Conservatives also endorse a clean environment, but not as much as liberals. Likewise, liberals also endorse economic development, but not as much as conservatives.

The main conservative policy is to rely on the marketplace on the theory that consumers would not buy products that are causing unhealthful

pollution. The main liberal policy is to rely on anti-pollution regulation on the theory that the fines, taxes, and other penalties will cause business to reduce pollution.

The usual result consists of compromise regulations that are not as severe as liberals would like but better than nothing. The compromise regulations are not as desirable to business as no regulation, but better than what the liberals are advocating.

A win-win or SOS solution might involve public policy designed through financial and other incentives to generate new processes for manufacturing, agriculture, transportation, and energy that are more profitable to business, but at the same time cleaner to the environment than previous processes. Such a profitable and clean policy would be an improvement on economic development and a clean environment.

An example might include the use of vehicles and machines that use less gasoline and oil but are even more productive. Such innovations are easier in terms of technology, funding, and other considerations for some kinds of pollution. Such innovations may also have a bigger impact on some kinds of pollution. The optimum allocation of incentive money is a separate problem. The important consideration here is shifting conservatives and liberals toward such win-win solutions rather than toward relatively ineffective marketplace and regulatory policies. See Table 3-2.

TABLE 3-2. POLLUTION POLICY

CRITERIA	C	L
ALTERNATIVES	Economic Development	Clean Environment
C		
Marketplace	+	–
L		
Anti-Pollution Regulation	–	+
N		
Compromise Regulations	0	0
SOS		
Improved Manufacturing, Agricultural and Other Processes (More Profitable and Cleaner)	++	++

III. SOCIAL POLICY

The social policy example of win-win performance payment deals with the closely related concepts of poverty, welfare, and unemployment. A key problem in those areas is how to move difficult cases to meaningful jobs from conditions of poverty, welfare, and unemployment. A meaningful job in this context is a job that an impoverished person can be hired to perform on a long-term basis and that the impoverished person will not readily quit.

The issue here is how to find jobs for welfare recipients. The conservative emphasis is to leave it up to the recipient to find a job on his own and not make it a responsibility of other people.

The liberal emphasis is on the welfare agency or another government agency doing most of the job-finding work. The neutral position might involve delegating the activity to a non-profit organization.

A key conservative goal is to save tax money. That means encouraging job-finding to reduce the welfare payments, but not incurring high fees for job-finding. A key liberal goal is to find jobs for welfare recipients not just to save welfare payments, but also because jobs can increase the income, quality of life, and dignity of welfare recipients.

An SOS alternative is to contract out to a private profit-making firm at a commission of about \$5,000 per welfare recipient who receives long-term employment. Half the commission is paid after four months on the job and the other half after eight months. The firm is responsible for providing training, day care, employment leads, advice, and dispute resolution, which the government agency might otherwise provide.

This is a good example of contracting out. The profit motive stimulates more success in finding jobs than the rate of success by a government agency or a non-profit organization. The firm also has more capability than the recipient. Tax money is saved in the long-run as a result of replacing welfare with work. It may also be saved in the short-run by costing less money per long-term job found than the cost with a government agency or non-profit organization. See Table 3-3.

TABLE 3-3. FINDING JOBS

GOALS	C	L
	Saving tax money	Finding jobs
ALTERNATIVES		
C		
Up to recipients	+	—
L		
Government agency	—	+
N		
Non-profit organizations	0	0
SOS OR WIN-WIN		
Contracting out	++	++

IV. POLITICAL POLICY

The political policy example of win-win performance payment relates to promoting people and other aspects of governmental personnel management. A key problem is developing criteria for promotions and merit raises, especially in the sensitive area of police procedures.

The components of the SOS package might include (1) increased police professionalism which can both reduce crime and help separate the innocent from the guilty, (2) drug medicalization designed to reduce drug related crimes and abuse of those suspected of being on drugs, although drug medicalization may lack present political feasibility, and (3) rent supplements, which refers to providing rental subsidies to low-income applicants to facilitate economic and racial integration, which thereby tends to reduce the economic and racial discrimination that may sometimes be present in police behavior. See Table 3-4.

TABLE 3-4. RESTRAINING POLICE

GOALS	C	L
ALTERNATIVES	Reduce crime	Protect innocent and guilty from abuse
C		
Free hand	+	—
L		
Citizens review board	—	+
N		
Police review board	0	0
SOS OR WIN-WIN		
1. Professionalism		
2. Drug medicalization		
3. Rent supplement	++	++

V. SOME CONCLUSIONS

In all four situations, providing for performance pay by public policy enables the achievement of both conservative and liberal goals:

1. Paying the stockbroker on the basis of how well the stocks do in terms of resale or dividends. This minimizes regulation and simultaneously encourages doing a good job for consumers.
2. Paying environmental research firms to develop new processes in manufacturing, transportation, energy, and agriculture that are both less expensive and cleaner than the old processes. Doing so satisfies the desire for higher profits and a cleaner environment, simultaneously.
3. Paying employment agencies commissions for finding jobs for welfare recipients and other unemployed people. The arrangement

enables the public sector and taxpayers to be relieved of having to support an unemployed person who is now adding to the GNP, and the person is pleased to have the job, the income, the self-satisfaction, and other benefits.

4. Paying police bonuses beyond a minimum salary for reducing various kinds of crime within their specialty and also for making arrests that result in convictions without the police evidence being excluded. This kind of performance pay simultaneously promotes the conservative emphasis on reducing crime and the liberal emphasis on reducing violations of due process and harassment of the innocent.