CHAPTER ONE
The New Governance and the Tools of Public Action: An Introduction

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In economic life the possibilities for rational social action, for planning, for reform—in short, for solving problems—depend not upon our choice among mythical grand alternatives but largely upon choice among particular social techniques… techniques and not 'isms' are the kernal of rational social action in the Western world.[1]

—ROBERT DAHL AND CHARLES E. LINDBLOM, 1953

Far-reaching developments in the global economy have us revisiting basic questions about government: what its role should be, what it can and cannot do, and how best to do it.[2]

—WORLD BANK, 1997

I. INTRODUCTION: THE REVOLUTION THAT NO ONE NOTICED

A fundamental rethinking is currently under way throughout the world regarding how to cope with public problems.[3] Stimulated by popular frustrations with the cost and effectiveness of government programs and by a newfound faith in liberal economic theories, serious questions are being raised about the capabilities, and even the motivations, of public-sector institutions. Long a staple of American political discourse, such questioning has spread to other parts of the world as well, unleashing an extraordinary torrent of reform.[4] As a consequence, governments from the United States and Canada to Malaysia and New Zealand are being challenged to be reinvented, downsized, privatized, devolved, decentralized, deregulated, delayered, subjected to performance tests, and contracted out.

Underlying much of this reform surge is a set of theories that portrays government agencies as tightly structured hierarchies insulated from market forces and from effective citizen pressure and therefore free to serve the personal and institutional interests of bureaucrats instead.[5] Even defenders of government concede that we are saddled with the "wrong kind of governments" at the present time, industrial-era governments "with their sluggish, centralized bureaucracies, their preoccupation with rules and regulations, and their hierarchical chains of command…."[6]

Largely overlooked in these accounts, however, is the extent to which the structure of modern government already embodies many of the features that these reforms seek to implement. In point of fact, a revolution has taken place in the "technology" of public action over the last fifty years, both in the United States and, increasingly, in other parts of the world.

The heart of this revolution has been a fundamental transformation not just in the scope and scale of government action, but in its basic *forms*. A massive proliferation has occurred in the *tools* of public action, in the *instruments* or means used to address public problems. Whereas earlier government activity was largely restricted to the direct delivery of goods or services by government bureaucrats, it now embraces a dizzying array of loans, loan guarantees, grants, contracts, social regulation, economic regulation, insurance, tax expenditures, vouchers, and more.

What makes this development particularly significant is that each of these tools has its own operating procedures, skill requirements, and delivery mechanism, indeed its own "political economy." Therefore, each imparts its own "twist" to the operation of the programs that embody it. Loan guarantees, for example, rely on commercial banks to extend assisted credit to qualified borrowers. In the process, commercial lending officers become the implementing agents of government lending programs. Since private bankers have their own worldview, decision rules, and priorities, left to their own devices they will likely produce programs that differ markedly from those that would result from direct government lending, not to mention outright government grants.

Perhaps most important, like loan guarantees, many of these "newer" tools share a significant common feature: they are highly indirect. They rely heavily on a wide assortment of "third parties"—commercial banks, private hospitals, social service agencies, industrial corporations, universities, day-care centers, other levels of government, financiers, and construction firms—to deliver publicly financed services and pursue publicly authorized purposes. The upshot is an elaborate system of *third-party government* in which crucial elements of public authority are shared with a host of nongovernmental or other-governmental actors, frequently in complex collaborative systems that sometimes defy comprehension, let alone effective management and control. In a sense, the "public administration problem" has leaped beyond the borders of the public agency and now embraces a wide assortment of "third parties" that are intimately involved in the implementation, and often the management, of the public's business.

Take, for example, the system for delivery of publicly financed mental health services in Tucson, Arizona. Funding for such services comes from a variety of federal and state government programs. However, no federal or state bureaucrat ever comes in contact with any mentally ill person. Indeed, no federal or state bureaucrat even comes in contact with any local government official or private agency employee who actually delivers services to the mentally ill. Rather, the entire system is operated at two and three steps removed. The state of Arizona not only contracts out the delivery of mental health services, it also contracts out the contracting out of mental health services. It does so through a "master contract" with a private, nonprofit local mental health authority called ADAPT Inc. ADAPT, in turn, handles all dealings with more than twenty other local agencies that deliver mental health services in the Tucson area with funds provided by state and federal programs.[7] While this may be an extreme case, the pattern it exemplifies has been a central part of public-sector operations for well over a generation now.

What is involved here, moreover, is not simply the delegation of clearly defined ministerial duties to closely regulated agents of the state. That is a long-standing feature of government operations stretching back for generations. What is distinctive about many of the newer tools of public action is that they involve the sharing with third-party actors of a far more basic governmental function: the exercise of discretion over the use of public authority and the spending of public funds. Thanks to the nature of many of these tools and the sheer scale and complexity of current government operations, a major share—in many cases *the* major share—of the discretion over the operation of public programs routinely comes to rest not with the responsible governmental agencies, but with the third-party actors that actually carry the programs out.

This development has proceeded especially far in the United States, where hostility to government has long been a staple of political life, and where the expansion of governmental programs consequently has had to proceed in a highly circuitous way.[8] Contracting arrangements invented to fight the Revolutionary War and later elaborated to handle the far more complex tasks of product development during World War II were thus quickly expanded in the aftermath of that war to fields as diverse as agriculture, health, space exploration, and social services. Grants-in-aid, loan guarantees, social regulations, insurance, and other indirect instruments have expanded as well. As Donald Kettl has reminded us, "[E]very major policy initiative launched by the federal government since World War II—including Medicare and Medicaid, environmental cleanup and restoration, antipoverty programs and job training, interstate highways and sewage treatment plants—has been managed through public-private partnerships."[9]

Reflecting this, a study of a cross section of U.S. communities carried out by the present author in the early 1980s found that the majority of the government-financed human services available at the local level was already being delivered by private nonprofit and for-profit organizations as of that date, and this was well before the advocates of "privatization," contracting out," and "reinventing government" had proposed it. In particular, as shown in Table 1-1, government agencies delivered only 40 percent of these publicly funded services, while private agencies—both nonprofit and for-profit—delivered 60 percent.[10]

Instead of the centralized hierarchical agencies delivering standardized services that is caricatured in much of the current reform literature and most of our political rhetoric, what exists in most spheres of policy is a dense mosaic of policy tools, many of them placing public agencies in complex, interdependent relationships with a host of third-party partners. Almost none of the federal government's more than $300 billion annual involvement in the housing field, for example, bears much resemblance to the classic picture of bureaucrats providing services to citizens. Rather, nearly $190 billion takes the form of *loan guarantees* to underwrite mortgage credit extended by private commercial banks; another $114 billion takes the form of tax subsidies that flow to homeowners through the income tax system; and more than $20 billion takes the form of housing *vouchers* administered by semiautonomous *local* housing authorities to finance housing provided by private landlords (see Table 1-2).

TABLE 1-1 ***Share of Government-Funded Human Services Delivered by Nonprofit, For-Profit, and Government Agencies in Sixteen Communities, 1982 (Weighted Average)****

Field	PROPORTION OF SERVICES DELIVERED BY Nonprofits	For-profits	Government	Total
Social services	56%	4%	40%	100%
Employment/training	48	8	43	100
Housing/community development	5	7	88	100
Health	44	23	33	100
Arts/culture	51	*	49	100
All	42%	19%	39%	100%

* Figures are weighted by the scale of government spending in the sites. Percentages shown represent the share of all spending in all sites taken together that fall in the respective categories.

* Less than 0.5 percent.

SOURCE: Lester M. Salamon, *Partners in Public Service: Government-Nonprofit Relations in the Modern Welfare State* (Baltimore: Johns Hopkins University Press, 1995), p. 88.

More generally, as reflected in Table 1-3, the direct provision of goods or services by government bureaucrats accounts for only 5 percent of the activity of the U.S. federal government. Even with income transfers, direct loans, and interest payments counted as "direct government," the direct activities of the federal government amount to only 28 percent of its activities. Far larger in scale are other instruments of public action—contracting, grants-in-aid, vouchers, tax expenditures, loan guarantees, government-sponsored enterprises, insurance, and regulation, to name just a few. Including just the $376 billion in net additions to outstanding deposit insurance in 1999 and not the far larger amounts of pension, crop, and disaster insurance, a rough estimate would put the total monetary value of these activities in the neighborhood of $2.5 trillion as of fiscal year 1999, two and a half times higher than the roughly $1 trillion in direct activities in which the federal government is engaged, and one and a half times higher than the amounts recorded as outlays in the federal budget that year. This highlights another interesting feature of many of these more indirect tools: they often do not show up on the government's budget, which further helps to explain their attractiveness.

TABLE 1-2 ***U.S. Federal Housing Programs by Type of Tool, Fiscal Year 1999***

Type	*Amount ($ bns)*	*% of Total*
Expenditures		
Subsidies (Sec. 8)	21.1	6.3%
Mortgage credit	0.4	0.1%
Public housing	6.0	1.8%
Rural housing	0.6	0.2%
Veterans housing	1.6	0.5%
SUBTOTAL	29.7	8.9%
Other		
Loan guarantees	187.6	56.4%
Direct loans	1.1	0.3%
Tax expenditures	114.4	34.4%
SUBTOTAL	303.1	91.1%
GRAND TOTAL	332.8	100.0%

SOURCE: U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2001; Analytical Perspectives* (Washington, D.C.: U.S. Government Printing Office, 2000), 109–111, 218–229, 230–236.

TABLE 1-3 *Scale of U.S. Federal Government Activity, by Tool of Public Action, Fiscal Year 1999*

	Amt ($ bns)	*Percent*
Direct government		
Goods and services	186.8	5.2
Income support	550.4	15.4
Interest	229.7	6.4
Direct loans (obligations)	38.4	1.1
Subtotal, Direct	1005.3	28.1
Indirect government		
Contracting	198.8	5.6
Grants	286.4	8.0
Vouchers	251.0	7.0
Tax expenditures	602.0	16.8
Loan guarantees (commitments)	252.4	7.0
Government-sponsored enterprises (loans)	409.2	11.4

Deposit insurance (net additions)	376.1	10.5
Regulation	200.0	5.6
Subtotal, Indirect	2575.9	71.9
GRAND TOTAL	3581.2	100.0
Budget outlays	1703.1	47.6
Other activity	1878.1	52.4

SOURCE: Data on government contracting from General Services Administration, Federal Procurement Data System, "Federal Contract Actions and Dollars, FY 1999" (www.fpds.gsa.gov). Data on regulation from U.S. Office of Management and Budget, "Costs and Benefits of Regulation 2000" (www.whitehouse.gov/omb/inforeg/2000fedreg-charts.pdf). Data on tax expenditures, grants, loan guarantees, government-sponsored enterprises from U.S. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2001* (Washington, D.C.: U.S. Government Printing Office, 2000), 109–111, 184–185, 204, 230–237, 246. Data on deposit insurance from Federal Deposit Insurance Corporation Web site (www.fdic.gov/bank/statistical/statistics). All other data from U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2001* (Washington, D.C.: U.S. Government Printing Office, 2000), 342–373.

This reliance on third parties to deliver publicly funded services is not an exclusively American phenomenon, however. It has also been a classic—if largely overlooked—feature of the European welfare states, at least outside Scandinavia. In the Netherlands, for example, a fierce conflict between secular and religious communities in the late nineteenth century over control of public education was resolved early in the twentieth century by a compromise under which the state was called on to finance elementary and secondary education but to leave the actual provision in the hands of private schools, many of them religiously affiliated. As government was enlisted to assist in the provision of health care, social services, and even humanitarian assistance overseas, this same model was replicated in these other spheres, producing a widespread pattern known as “pillarization” under which state resources are used to finance services delivered by private institutions organized along religious and, later, ideological lines.[11] A similar phenomenon is also apparent in Germany, where the Catholic doctrine of “subsidiarity” has been enshrined in basic law, obliging the state to turn first to the “free welfare associations” to address social needs before enlisting state institutions.[12] Belgium, Ireland, Israel, and other nations also exhibit a similar pattern. Even France, long known for its centralized governmental structure and highly developed state welfare provision, dramatically increased its reliance on government contracts with private nonprofit institutions during the 1980s to implement a major decentralization of social welfare functions.[13] The upshot is that many countries in western Europe have nonprofit sectors quite a bit larger than that in the United States, financed largely through grants and contracts from the state, as reflected in Figure 1-1 below.[14]

II. THE NEED FOR A NEW PARADIGM

The proliferation of these new tools of public action has created new opportunities to tailor public action to the nature of public problems. It has also made it possible to enlist a wide assortment of different actors—governmental as well as nongovernmental—in meeting public needs. At the same time, however, this development has vastly complicated the task of public management. Instead of a single form of action, public managers must master a host of different "technologies" of public action, each with its own decision rules, rhythms, agents, and challenges. Policymakers must likewise weigh a far more elaborate set of considerations in deciding not just whether, but also *how*, to act, and then how to achieve some accountability for the results. And the public at large must somehow find ways to make sense of the disparate actions that are then taken on their behalf by complex networks of public and private actors. One of the central conclusions of the new field of "implementation studies" that emerged during the 1970s, in fact, was that the convoluted structure of many public programs was the source of many of the problems causing public programs to fall short of their promise.[15]

Regrettably, however, existing concepts of public administration and public policy offer little help in coming to terms with these dilemmas. *Traditional public administration* remains preoccupied with the internal operations of public agencies—their procedures for staff recruitment, budgeting, and task accomplishment. Indeed, a cardinal tenet of the field has been that the management of public affairs is best left to neutral professionals organized in public agencies that are arrayed in hierarchical fashion and therefore able to achieve the needed specialization of functions so crucial to effective operations and democratic control.[16] Such concepts leave little room for the proliferation of new forms of public action featuring the wholesale surrender of key elements of discretionary authority over the exercise of public authority and the spending of public funds to a host of nongovernmental or other-governmental actors. “Much of the time, when ‘government’ does something, it is the [government] employees who really take action,” one recent text thus notes, conveniently overlooking the fact that in the current era it is mostly government’s third-party partners that take the action instead.[17]

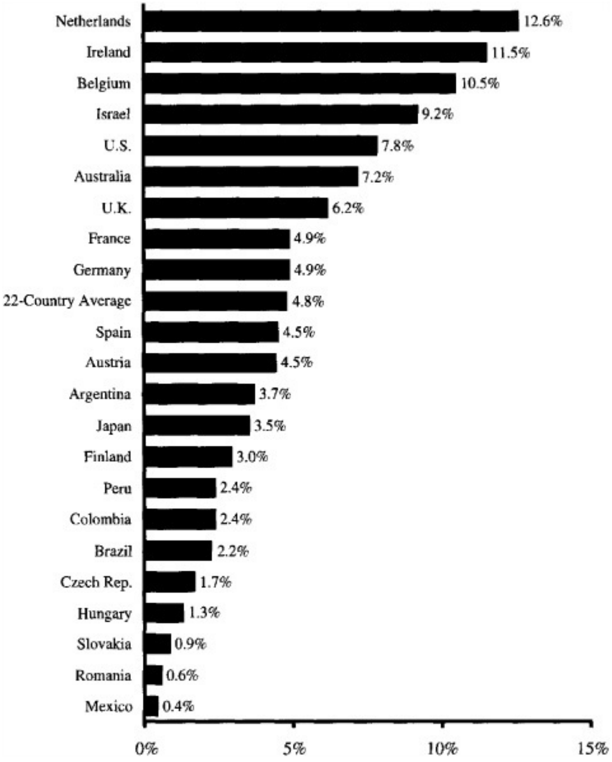

FIGURE 1-1 ***Nonprofit share of total employment, by***

***country; 22 countries; 1999. Source: Lester M. Salamon et al,* Global Civil Society: Dimension of the Nonprofit Sector *(Baltimore: Johns Hopkins Institute for Policy Studies, 1999), p. 14*.**

Nor does the new field of *policy analysis* that recently has gained prominence offer much help. The central preoccupation of this field has been the application of sophisticated techniques of microeconomics to the analysis of public problems. Of far less concern has been the nitty-gritty of actual program operations. Indeed, the implementation of public programs has long been the "missing link" in the policy analysis world-view.[18]

Even the "new public management" and the "reinventing government" movement that it helped spawn have failed to improve much on this record. To be sure, this line of thinking has made the use of alternative instruments a major goal of public sector reform.[19] However, to justify this prescription, as we have seen, reinventing enthusiasts have embraced a caricature of current government operations that overlooks the extent to which such instruments have already been adopted. In the process, they downplay the immense difficulties that these instruments entail and the strong possibility that the reforms they are espousing may be the source, rather than the cure, for the problems they are seeking to remedy.

What this suggests is that government does not need to be "reinvented," as the new public management has suggested. That process is already well advanced. The great challenge now is to find a way to comprehend, and to manage, the reinvented government we have produced. For that, however, a new approach is needed, one that acknowledges the existence and likely persistence of "third-party government," and that focuses more coherently and explicitly on the distinctive challenges that it poses.

Fortunately, some progress has been made in developing such an approach. A half century ago, for example, Robert Dahl and Charles Lindblom called attention to the rapid innovation in techniques of social intervention already in evidence, referring to it as "perhaps the greatest political revolution of our times."[20] Frederick C. Mosher returned to this theme during the early 1980s, emphasizing our failure to take sufficient account of the extent to which the federal government in the United States had changed its role from one of doing to one of arranging.[21] The present author at around the same time proposed a wholly new focus for public management training and research concentrating on the distinctive tools or instruments through which the public sector increasingly operates.[22]

Despite some useful progress in formulating such a "tools framework,"[23] and the further proliferation in the use of diverse policy tools, however, most of our political rhetoric and much of our public administration training remains dominated by the image of the centralized bureaucratic state, as a recent survey of public administration textbooks makes clear.[24]

The purpose of this book is to remedy this situation, to bring the new tools of public action that are now in widespread use to the center of public and professional attention. To do so, the discussion builds on an earlier volume that first elaborated on the concept of tools of government.[25] Where that volume focused on only six tools, however, this one extends the analysis to many more. In addition, the present volume supplements the discussion of individual tools with an analysis of some of the overarching issues that the proliferation of tools of government action raises.

In the process, this book suggests a new approach to public problem solving for the era of "third-party government" in which we find ourselves. I call this approach "the new governance" to underline its two defining features. The *first* of these, signified by use of the term "governance" instead of "government," is an emphasis on what is perhaps the central reality of public problem solving for the foreseeable future—namely, its *collaborative nature*, its reliance on a wide array of third parties in addition to government to address public problems and pursue public purposes.[26] Such an approach is necessary, we will argue, because problems have become too complex for government to handle on its own, because disagreements exist about the proper ends of public action, and because government increasingly lacks the authority to enforce its will on other crucial actors without giving them a meaningful seat at the table. The *second* feature, signified by the use of the term "new," is a recognition that these collaborative approaches, while hardly novel, must now be approached in a new, more coherent way, one that more explicitly acknowledges the significant challenges that they pose as well as the important opportunities they create.

The balance of this introduction outlines this approach in more detail and introduces some of the basic concepts on which it rests. To do so, the discussion falls into three major sections. The first section introduces the major features that form the heart of this "new governance" paradigm and shows how they relate to existing conceptualizations in the field. The second section then spells out some of the basic analytics of the approach—what is meant by a "tool" of public action, how tools can be assessed, and what dimensions of tools are consequently most important. Finally, the third section examines the implications that flow from this analysis and explains the format of the rest of the book.

III. THE NEW GOVERNANCE PARADIGM

Like any new approach to a topic as old as public administration, the "new governance" is hardly entirely novel. Rather, it builds on a rich history of past thinking, changing emphases, and incorporating new elements, but hardly replacing all that has gone before. The result, however, is a new synthesis, a new paradigm, that brings prevailing realities into better focus and consequently makes more sense of some of the central dynamics at work. In particular, five key concepts form the core of this approach, as outlined in Table 1-4 below. In this section we examine these five concepts and show how they relate to existing approaches in the field.

From Agency and Program to Tool

At the heart of the new governance approach is a shift in the “unit of analysis” in policy analysis and public administration from the public agency or the individual public program to the distinctive *tools* or *instruments* through which public purposes are pursued. As we have seen, such instruments have mushroomed in both number and scale in recent decades. A central argument of the “new governance” is that this has altered the nature of public management and the pattern of public problem solving in rather fundamental ways, but ways that are only partly acknowledged in existing theories and approaches.

This focus on the tools or technologies of public action differentiates the new governance both from classical public administration and from the more recent “implementation” school that emerged during the 1970s. For the former, the central focus of public administration is on the operation of governmental agencies. This reflects the origins of the public administration field in the Progressive-era effort to legitimize government action to cope with the increasingly apparent shortcomings of the unfettered market system. As formulated by Woodrow Wilson, Max Weber, Frederick Taylor, Luther Gulick, and others, the classical theory posited a new type of institution, the democratic public agency, that would overcome the three major problems long associated with government bureaucracy in the American mind—that is, excessive administrative discretion, special-interest capture, and inefficiency. This was to be achieved through three principal devices: first, the restriction of executive agencies to administration rather than policymaking; second, personnel recruitment on the basis of technical competence rather than political influence; and third, a set of "scientific" management principles designed to ensure the efficient conduct of administrative work.[27] Although subsequent work has refined and elaborated on these ideas, the basic principles have remained largely intact, fixing on public administration thinking a focus on the public agency as the basic unit of analysis, a sharp distinction between the public and private sectors, a separation between policy and administration, a preference for clear lines of administrative responsibility and control, and an emphasis on the skills of command and control.

TABLE 1-4 ***The New Governance Paradigm***

Classical Public Administration	*New Governance*
Program/agency	Tool
Hierarchy	Network
Public vs. private	Public + private
Command and control	Negotiation and persuasion
Management skills	Enablement skills

While these ideas have provided a workable framework for the development of a relatively successful administrative apparatus in the American context, however,[28] they take as given that the funding and provision of public services are typically carried out by the same public entity. As a result, they apply most clearly to only one of a range of possible forms that public action can take (i.e., direct government). However, as we have seen, this is no longer the dominant form of public action at the present time.

This point became clear as early as the 1970s as efforts were made to explain why the Great Society social programs of the

1960s were not living up to their promise. The answer, a new school of implementation studies concluded, was not that the classical theory was wrong, but that the American political system was failing to supply the conditions necessary for it to work.[29] Instead of clear specification of program objectives, sufficient authority to put programs into effect, and reasonable attention to the management challenges that programs entailed, studies of program implementation revealed that administrators were often set adrift with only vague or conflicting guidance about program purposes, insufficient authority to act, and little attention to the administrative tasks that programs involved.[30] Especially problematic was the highly indirect character of many of the Great Society initiatives. The reason public programs were failing, students of implementation therefore concluded, was not that America adhered too closely to the Progressives' ideal and built too centralized an administrative state, as "privatization" advocates now contend, but that it departed too extensively from this ideal and created programs that resembled Rube Goldberg cartoons instead, with multiple actors linked together in often implausible decision sequences.

To remedy this, implementation theorists proposed to shift the unit of analysis in policy work from the public agency to the individual public program and to encourage clearer specification of program objectives and greater attention to program management. Far less clear, however, despite numerous case studies, was what improved management really entails and how this might vary systematically among the many types of programs that exist.[31]

The “new governance,” by contrast, takes a significantly different approach. Rather than seeing programs as *sui generis*, the new governance finds commonalities flowing from the tools of public action that they employ. It thus shifts the unit of analysis from the individual program or agency to the distinctive tools or technologies that programs embody. Underlying this approach is the notion that the multitude of different government programs really embody a more limited number of basic tools or instruments of action that share common features regardless of the field in which they are deployed. Among other things, these tools define the set of actors who will be part of the cast during the all-important implementation process that follows program enactment, and they determine the roles that these actors will play. Since these different actors have their own perspectives, ethos, standard operating procedures, skills, and incentives, by determining the actors the choice of tool importantly influences the outcome of the process. Thus, this focus builds on the insight of the implementation studies that the division between policy and administration assumed in the classical theory does not seem to work in practice, and that the process of program design does not end with legislative enactment but rather continues into the implementation phase as well. Under these circumstances, it makes sense to focus attention on the decisions that shape which actors have significant roles in this stage of the process, and this is precisely what the "tools focus" of the new governance does. By shifting the focus from agencies or programs to underlying tools, therefore, the new governance provides a way to get a handle on the postenactment process that the implementation literature identifies as crucially important. Tool choices significantly structure this process and therefore affect its results.

Because of this, however, tool choices are also not just technical decisions. Rather, they are profoundly *political*: they give some actors, and therefore some perspectives, an advantage in determining how policies are carried out. This is especially critical given the degree of discretion that the implementation literature suggests is left to this stage of the process. The choice of tool thus helps determine how this discretion will be used and therefore which interests will be most advantaged as a result. For this reason, the choice of tool is often a central part of the political battle that shapes public programs. What is at stake in these battles is not simply the most efficient way to solve a particular public problem, but also the relative influence that various affected interests will have in shaping the program's postenactment evolution. Indeed, it may well be the case that the need to involve particular actors is what importantly determines which tool is chosen.

Such choices are also importantly shaped by cultural norms and ideological predispositions, and they, in turn, affect public attitudes toward the state.[32] A strong promarket bias underlies tool choices in the United States, for example, whereas western Europe is much more wary of the market and much more favorably inclined toward the state. At the same time, such cultural norms are hardly immutable. To the contrary, debates over the appropriate techniques of social intervention—over block grants vs. categorical grants, direct government vs. contracting out, public enterprise vs. economic regulation—forms the core of much of our political discourse.

If tool choices are fundamentally political choices, however, they are also operational choices with significant implications for the management of public affairs. Different tools involve different management tasks and therefore require different management knowledge and skills. The operation of a grant-in-aid program is significantly different from the operation of a regulatory program and this differs, in turn, from the operation of a voucher. Whatever generic skills of public management may exist, they must be supplemented by skills peculiar to the various tools being employed if public programs are to be effective. However, this requires a body of literature and a type of training that is geared to the characteristics of the different tools, which is precisely what the new governance seeks to provide.

From Hierarchy to Network

In shifting the focus in public problem solving from agencies and programs to generic tools, the *new governance* also shifts the attention from hierarchic agencies to *organizational networks*. The defining characteristic of many of the most widely used, and most rapidly expanding, tools, as we have seen, is their indirect character, their establishment of *interdependencies* between public agencies and a host of third-party actors. As a result, government gains important allies but loses the ability to exert complete control over the operation of its own programs. A variety of complex exchanges thus come into existence between government agencies and a wide variety of public and private institutions that are written into the operation of public programs. Under these circumstances, the traditional concerns of public administration with the internal operations of public agencies—their personnel systems, budgetary procedures, organizational structures, and institutional dynamics—have become far less central to program success. At least as important have become the internal dynamics and external relationships of the host of third parties—local governments, hospitals, universities, clinics, community development corporations, industrial corporations, landlords, commercial banks, and many more—that now also share with public authorities the responsibility for public programs operations.

Not only does this broadening of the focus from public agencies to "networks" of organizations differentiate the new governance from traditional public administration, it also differentiates it from the "privatization" and "reinventing government" perspectives that have surfaced in recent years.

Both of these schools of thought acknowledge the importance of indirect forms of government action. More than that, they both advocate it, the former as a way to replace government and the latter as a way to incentivize it.

In neither case, however, is the use of third parties viewed as particularly problematic. Privatization theories, for example, actually view reliance on the private sector to deliver public services as more likely to serve public interests than reliance on public agencies themselves. This is so, privatization advocates argue, because the civil service protections designed to insulate bureaucrats from political pressures insulate them as well from the citizens they are supposed to serve and consequently free them to pursue their self-interests instead.[33] Under these circumstances, "*the* key to effective government" becomes "privatization"—reducing the size of the public sector, shifting responsibilities to the private sector, and establishing "private sector alternatives that are more attractive to the current supporters of government programs."[34]

The reinvention school and the "new public management" of which it is a part take a different tack. For these theories, contracting out and other forms of indirect government are less ends in themselves than a means to improve internal agency management by forcing public managers to compete.[35] Reinventers thus have an incentive to downplay the extent to which such indirect devices are already being used and to minimize the difficulties to which they give rise. An internal contradiction thus creeps into the new public management prescription because managers are simultaneously encouraged to take more responsibility for the results of their activity and obliged to surrender significant shares of the authority for achieving those results to third-party implementers.

The “new governance,” by contrast, shifts the focus of attention much more explicitly from the internal workings of public organizations to the networks of actors on which they increasingly depend. While acknowledging the advantages such networks can bring, however, it also acknowledges the considerable challenges they pose. As such it builds on two other bodies of theory: “principal-agent theory” and “network theory.”

Principal-agent theory is part of a broader body of concepts designed to explain the existence of organizations in a market system.[36] What is relevant for our purposes here is the insight this theory provides into one of the central paradoxes that arises in relationships between principals and agents in contractual or other third-party arrangements of the sort that third-party government entails. Despite the apparent influence that the principals in such relationships wield by virtue of their control of the purse strings, it turns out that the agents frequently end up with the upper hand. This is so, principal-agent theory explains, because the agents in such relationships typically have more information than their principals about what they are doing with the discretion that is inevitably left in their hands. They therefore have significant opportunities to "shirk" their duties and subject the principals to the "moral hazard" of having to rely on agents whose competence and diligence the principal cannot fully know. The only way for principals to avoid this is to secure better information about how the agents are performing, but this involves costs. Therefore, every principal has to find an equilibrium between the level of control it would like and the level it can afford. Moreover, the more disparate the goals and characteristics of the principal and the agent, the more information will be needed and the more costly a given equilibrium is likely to be. Under these circumstances, "who pays the piper" may not really "call the tune" at all, at least not without considerable effort.

What *network theory* adds to this insight is the observation that the principals in such relationships may have difficulty getting their way even when the agents share their basic goals. This body of theory was developed to explain the complexities of policymaking in many modern democracies, where power is splintered among numerous divergent groups. However, it can also help explain the challenges of policy implementation as well, especially where indirect tools are used. In such situations, network theory argues, the standard relationship among actors is one of interdependence. As a consequence, no single actor, including the state, can enforce its will. This is especially true, network theory emphasizes, because of four crucial attributes that commonly characterize policy networks, making the tasks of network management in general, and the tasks of managing indirect tools in particular, especially demanding:[37]

- First, their *pluriformity*—the fact that they engage a diverse range of organizations and organizational types, many of which have limited experience cooperating with each other and limited knowledge of each other's operating styles;
- Second, their *self-referentiality*—the fact that each actor has its own interests and frame of reference and therefore approaches the relationship with a different set of

perspectives and incentives;

- Third, their *asymmetric interdependencies*—the fact that all the actors in a network, including the state, are dependent on each other but rarely in a fully symmetrical way. Even when all the parties want the same thing, therefore, they may still not be able to cooperate fully because they may not all want it with the same urgency, in the same sequence, or at the same time; and
- *Finally*, their *dynamism*—the fact that all of these features change over time even as the network seeks to carry out its mission.

Far from automatically sharing the same objectives, as the privatization and reinventing paradigms tend to assume, the actors brought into the operation of public programs through indirect tools thus typically have goals, operating styles, skills, worldviews, incentives, and priorities that, even with the best of intentions, often differ widely from each other. As a consequence, the task of securing concerted action becomes a major administrative challenge. Under these circumstances, the hopeful assumptions of the reinventing government school that government can move easily from a "rowing" to a "steering" role are far from assured.[38]

What the “new governance” and its “tools approach” add to this network theory is a clearer understanding of the commonalities of various network arrangements. In a sense, tools significantly structure networks: they define the actors that are centrally involved in particular types of programs and the formal roles they will play. When policymakers choose a loan guarantee, for example, they choose a network that involves a structured interaction between a public agency and the commercial banking system. When they select a grant-in-aid, by contrast, they choose a different network that engages state and local governments. By shifting the focus from hierarchies to networks and specifying more precisely the kind of network a program embodies, the “tools approach” of the new governance thus can offer important clues about the kinds of management challenges that particular programs will confront.

From Public vs. Private to Public + Private

In moving the focus of public management and policy analysis from the program and the agency to the tool and the network, the *new governance* also brings a new perspective to the relationship between government and the other sectors. Traditional public management posits a tension between government and the private sector, both for-profit and nonprofit. The public sector is distinguished, in this view, by its monopoly on the legitimate use of force, which it acquires by virtue of its responsiveness to the democratic will of the people. Public agencies thus are imbued with sovereignty, the power to act on behalf of the public.[39] Many of the central precepts of classical public administration flow from this central premise and are designed to ensure that the administrative officials so empowered do in fact respond to the public's will and not the partial will of some private group. Without this clear differentiation, accountability for the spending of public funds and the exercise of public authority becomes impossible and the public sphere polluted by the intrusion of private interests. Keeping private interests and private organizations at arm's length thus becomes a central motivation of organizational design.

This notion of a sharp divide between the public and private sectors also figures prominently in the privatization theories. Here, however, it is the protection of the private sphere from the intrusion of the state that is the object of concern. In this view, the expansion of the state inevitably comes at the expense of the private sector, both for-profit and nonprofit. The best way to preserve a healthy market system and private voluntary sector therefore is to shrink the state and allow the private sector to take up the slack.[40]

Many of the new tools of public action defy these precepts rather fundamentally, however. Instead of a sharp division between the public and private spheres, they blend the two together. This is not to say that sectoral differences are blurred, as is often suggested. A central precept of network theory, after all, is that the participants in a network retain important elements of their individuality. However, *collaboration* replaces *competition* as the defining feature of sectoral relationships. Rather than seeing such collaboration as an aberration or a violation of appropriate administrative practice, moreover, the new governance views it as a desirable byproduct of the important complementarities that exist among the sectors, complementarities that can be built upon to help solve public problems.[41] For example, the state enjoys access to resources that are often critically needed by private, nonprofit groups. For their part, nonprofit groups are often already actively involved in fields that government is newly entering. By combining the actions of the two, utilizing the state for what it does best—raising resources and setting broad societal directions—while using nonprofit organizations for what they do best—delivering services at a human scale and innovating in new fields—important public advantages thus can be gained.

Similar synergies exist, moreover, with the private business sector.[42] So long as due attention is given to the management challenges they entail, cross-sectoral partnerships thus can yield important dividends in terms of effective public problem solving. Rather than viewing such interaction as a "fall from grace" that undermines the purity of the respective sectors, the "new governance" views it as a source of opportunity instead.

Front Command and Control to Negotiation and Persuasion

In emphasizing the shift from programs run by public agencies to cooperative action orchestrated through complex networks, the "new governance" also underlines the need for a new approach to public management. In this also it differs from both traditional public administration and the new privatization theories.

Traditional public management, with its focus on the operation of public agencies, emphasizes *command and control* as the modus operandi of public programs. This assumes that public action is carried out by hierarchically organized agencies whose central spinal chord is the chain of command. Such centralized control is, in fact, vital to the preservation of democratic accountability. Much of traditional public administration thus is preoccupied with clarifying lines of control and centralizing authority.

The privatization school, by contrast, downplays the need for administrative management altogether. Instead, it posits the market as a superior mechanism for achieving coordination and advancing public goals. Market competition, in this view, replaces public decisionmaking and obviates the need for administrative control.[43]

The "new governance" rejects both of these approaches and suggests a third route for achieving public purposes in the world of third-party government that now exists. Unlike the privatization school, it emphasizes the continued need for public management even when indirect tools are used. This is so because private markets cannot be relied on to give appropriate weight to public interests over private ones without active public involvement. "Government's relationships with the private sector are not self-administering," one expert on privatization has thus noted; "they require, rather, aggressive management by a strong, competent government."[44] Even the World Bank, long known for its market-oriented economic policies and endorsement of privatization, has had to acknowledge recently that "Institutions Matter," as the title of a recent World Bank publication puts it.[45] "An effective state," the World Bank noted in the 1997 edition of its influential *World Development Report*, "is vital for the provision of the goods and services—and the rules and institutions—that allow markets to flourish and people to lead healthier, happier lives. Without it, sustainable development, both economic and social, is impossible."[46] In fact, even the process of privatization itself has been found to require "strong political commitment and effective public management."[47]

While stressing the continued need for an active public role, however, the new governance acknowledges that command and control are not the appropriate administrative approach in the world of network relationships that increasingly exists. Given the pervasive interdependence that characterizes such networks, no entity, including the state, is in a position to enforce its will on the others over the long run. Under these circumstances, *negotiation and persuasion* replace command and control as the preferred management approach, not only in the setting of policy but in carrying it out.[48] Instead of issuing orders, public managers must learn how to create incentives for the outcomes they desire from actors over whom they have only imperfect control. Indeed, negotiation is even necessary over the *goals* that public action is to serve since part of the reason that third parties are often cut into the operation of public programs is that such clarity cannot be achieved at the point of enactment.

All of this suggests a new body of administrative "doctrine" that makes collaboration and negotiation legitimate components of public administrative routine rather than regrettable departures from expected practice. Reconciling such an approach with longstanding prohibitions against excessive administrative discretion will be no easy task, but interesting examples of how this can be done are already apparent in such approaches as negotiated regulation and cooperative contracting, as subsequent chapters of this book will show.

From Management Skills to Enablement Skills

Finally, because of the shift in emphasis from command and control to negotiation and persuasion, the world of third-party government necessitates a significantly different skill set on the part of public managers and those with whom they interact. Both traditional public administration and the "new public management" emphasize essentially *management* skills, the skills required to manipulate large numbers of people arrayed hierarchically in bureaucratic organizations. For traditional public administration, these are essentially the control skills summarized nicely by Luther Gulick in the classic administrative acronym POSDCORB—Planning, Organizing, Staffing, Directing, Coordinating, Reporting, and Budgeting.[49] The new public management moves the emphasis considerably from control to performance, but it remains preoccupied with internal agency management and with the manager as the key to success. Under this body of thought, the path to successful public-sector performance is to introduce business management practices into the public sector, freeing managers to manage but subjecting them to increased competition and holding them accountable for results.[50]

Unlike both traditional public administration and the new public management, the "new governance" shifts the emphasis from management skills and the control of large bureaucratic organizations to *enablement* skills, the skills required to engage partners arrayed horizontally in networks, to bring multiple stakeholders together for a common end in a situation of interdependence. Three rather different skills thus move into the center of attention as a consequence of this shift:

Activation Skills

In the first place, the new governance requires *activation skills*, the skills required to activate the networks of actors increasingly required to address public problems.[51] Many of the new governance tools create opportunities for third parties to take part in public problem solving but do not mandate that these opportunities be taken. Public managers therefore must perform a mobilization and activation role, marketing the new opportunities and encouraging the potential partners to step forward and play their roles. Thus, competent contractors must be identified and encouraged to bid in purchase-of-service programs; banks must be convinced to participate in loan guarantee schemes; and private individuals and corporations must be made aware of tax expenditures. In none of these cases can participation be taken for granted. Rather, it must often be coaxed and cajoled. One of the great challenges in purchase-of-service contracting, for example, has been to ensure an adequate supply of vendors willing to compete on the government's terms,[52] and similar problems have confronted loan guarantee programs as well. Those ultimately responsible for program success therefore often find themselves in the unaccustomed position not of withholding desired support but rather of trying to mobilize appropriate partners to accept it.

Moreover, the task of activating networks for public problem solving is not an exclusively governmental function. Other actors can also often take the initiative. In some cases, these are nonprofit organizations or community groups mobilized by grassroots activists who bring the other stakeholders to the table.[53] Increasingly, private foundations have played this role in the United States, either on their own or in cooperation with corporate and community partners. Rather than wait for government to act, in other words, private institutions are taking the initiative instead. This proliferation of a sense of responsibility for activating problem-solving networks is, in fact, one of the more hopeful facets of the "new governance."

In addition to activating networks, the new governance requires managers who can then sustain them. This calls for *orchestration* skills, the skills required of a *symphony* conductor. Essentially, a conductor's job is to get a group of skilled musicians to perform a given work in sync and on cue so that the result is a piece of music rather than a cacophony. Clearly, the conductor cannot do this by playing all of the instruments. Rather, he or she must tease the music out of the musicians, setting the tempo and conveying an interpretation, but nevertheless remaining within the bounds set by the physical capacities of the instruments (and the musicians) not to mention the melody prescribed in the score. The conductor thus is an enabler rather than a doer, but his or her interpretation and skill can nevertheless determine whether a given orchestra plays poorly or well.

Orchestration, therefore, does not mean command and control, nor is the orchestrating role an exclusively governmental one any more than is the activation one. Indeed, in major systems acquisition projects, government contracts out the orchestrating role to a general contractor who then mobilizes subcontractors to produce the components of the system. In recent years, this model has been applied as well to human service contracting. In fact, defense contractors such as Lockheed Martin have drawn on their experience in orchestrating the production of complex weapons system to bid successfully on contracts to orchestrate the complex networks of day care, drug abuse counseling, mental health service, job-search, health, job placement, and related service providers required to move welfare recipients into jobs and keep track of the results.[54] Beyond this, however, other actors can also lift the baton even without this kind of governmental *imprimatur*. What is needed to be effective is not simply command of resources—whether financial or legal—but also the intangibles of knowledge, vision, persuasiveness, and community respect.

Modulation Skills

Finally, the new governance requires the sensitive modulation of rewards and penalties in order to elicit the cooperative behavior required from the interdependent players in a complex tool network. Urban economic development specialists have referred to this as *enoughsmanship*—the provision of just enough subsidy to get private parties to make investments in run-down areas they might avoid, but not so much that it produces windfall profits for doing what the developers would have done anyway. Inevitably, as we have seen, third-party government leaves substantial discretion over the exercise of public authority and the spending of public funds in the hands of a variety of third parties over which public officials have at best limited control. Under these circumstances, the central challenge for public managers is to decide what combination of incentives and penalties to bring to bear to achieve the outcomes desired. Excessive use of authority can clearly backfire if partners choose not to "play" or to disguise their activities in ways that "principal-agent theory" predicts. On the other hand, insufficient accountability can invite complete disregard of public goals. Public managers in the era of the new governance are consequently perennially confronted with the dilemma of deciding how much authority or subsidy is "enough" and how much is too much.

Eugene Bardach and Robert Kagan recognized this point clearly in their classic analysis of the problem of regulatory enforcement. Rather than the classic "tough cop," Bardach and Kagan suggest regulatory enforcement may actually be more successful if it promotes the concept of the "good inspector," the inspector who understands when forbearance rather than rigid enforcement best achieves regulatory compliance, and who has the discretion to adjust regulatory enforcement accordingly.[55] Similar notions are also evident in endorsements of new types of contracting stressing cooperation as opposed to classic competitive bidding.[56] Instead of narrowing the range of administrative discretion left to the "street-level bureaucrat,"[57] in other words, the "new governance" calls for broadening that discretion and equipping the public official with the skills and understanding needed to exercise this discretion in a way that advances program objectives.

The growing use of entire "suites" of tools in particular programs only accentuates the need for this modulating, *enoughsmanship* approach to program implementation and enforcement. With rich medleys of instruments at their command, public managers can assemble highly targeted blends of incentives and disincentives specially tailored to the circumstances at hand. While this opens opportunities for abuse, it also creates the potential for truly effective management of public programs. To be effective, however, this approach requires site-level managers who can cope with the discretion involved, and who have a well-developed feel for what constitutes the appropriate mixture of penalties and rewards required to get a given job done.

Therefore, as with other facets of the new governance, the enablement skills required will vary with the type of tool being used. The task of securing the concurrence of industrial firms with the operation of an air pollution control program is likely to differ markedly from the task of enlisting financiers to take advantage of a tax credit for low-income housing. This points up again the importance of tool-specific knowledge to the operation of the third-party arrangements that now exist. However, it also underlines the fact that the new tools of public action, far from reducing the demands on public management, may increase them instead, necessitating more sophisticated management skills, requiring greater exercise of discretion, and calling for better information on performance and results. All of this suggests not the withering away of public administration, as privatization theories tend to assume, but its transformation and refinement instead.

Summary

In short, the proliferation of tools of public action has necessitated a new approach to public problem solving, a *new governance* that recognizes both the collaborative character of modern public action and the significant challenges that such collaboration entails. Central to this new governance is a shift in the basic paradigm guiding action on public problems. Instead of focusing exclusively on public agencies or public programs, the new governance moves the focus of attention to the distinctive tools or technologies used to address public problems. Underlying this shift is a recognition that different tools have their own characteristic features that impart a distinctive twist to the operation of public programs. Tools importantly structure the postenactment process of policy definition by specifying the network of actors that will play important roles and the nature of the roles they will perform. Under these circumstances, the whole character of public management has to change. Instead of command and control, it must emphasize negotiation and persuasion. In place of management skills, enablement skills are increasingly required instead. Far from simplifying the task of public problem solving, the proliferation of tools has importantly complicated it even while enlarging the range of options and the pool of resources potentially brought to bear. All of this makes the development of a systematic body of information about the dynamics and characteristics of the different tools of public action all the more urgent.

IV. BUILDING THE KNOWLEDGE BASE: BASIC ANALYTICS

The *new governance* thus calls attention to the new world of public problem solving that has been ushered in by the proliferation of tools of public action over the past half century or more. Rather than resisting this trend, like the traditional public administration, or uncritically celebrating it, like the reinventing government school, however, the *new governance* calls for the development of a systematic body of knowledge that can help policymakers, public managers, and others engaged in the increasingly collaborative business of public problem solving take advantage of the special opportunities and cope with the special challenges that these new tools entail. In the process it directs our attention to the characteristic features of the different tools and at the often complex networks of interaction on which many of them depend.

But which features of the different tools are most important? How can tools be analyzed and compared? Which facets are likely to have the biggest effects? And which effects are most important? Clearly, if the "new governance" and the "tools framework" on which it rests are to be more than mere metaphors, they must offer meaningful answers to these questions. Therefore, it is necessary to turn from the rationale for the “new governance” and the general features that characterize it to a more detailed exploration of its analytical core.

Definition and Classification: The Basic Building Blocks

Basic Definition

As a first step in this direction, it may be useful to specify more precisely what is meant by a “tool” or “instrument” of public action.

This is no simple task since tools have multiple features and can be defined at any of a number of levels of abstraction. For our purposes here, however, the most basic descriptive level seems most appropriate. Therefore, as used here *a tool, or instrument, of public action can be defined as an identifiable method through which collective action is structured to address a public problem.*[58] Several features of this definition are particularly notable:

BOX 1-1 ***A Tool of Public Action***

A tool of public action is an identifiable method through which collective action is structured to address a public problem.

- In the first place, each tool is assumed to have certain *common features* that make it “identifiable.” This is not to say that all tools of a particular type share *all* features. In addition to their common, or *defining*, features, tools also have *design* features that can vary from one embodiment of the tool to another. For example, all grants-in-aid involve payments from one level of government to either another level of government or a private entity, but different grant programs can vary in the level of specificity with which they define eligible purposes, in the range of eligible recipients, in how funds are distributed, and in many other features.
- Second, tools “structure” action. What this means is that the relationships that tools foster are not free-form or transient. Rather, they are institutionalized. Thus, tools are “institutions” in the sense emphasized by students of the “new institutionalism” (i.e., they are regularized patterns of interaction among individuals or organizations).[59] They define who is involved in the operation of public programs, what their roles are, and how they relate to each other. Thus, they importantly shape the set of considerations that effectively come to bear in the all-important

implementation phase of policy.

- Finally, the action that is structured by tools is “collective action” aimed at responding to “public problems.” This is different from saying that tools structure only government action. Other entities are also often involved in the action that is structured by the tools of public action.

Given this definition, it is possible to distinguish *tools* from both *programs* and *policies*, two other concepts commonly used to discuss policy action. Tools are more general than programs. Programs thus embody tools, applying them to the circumstances of a particular field or problem. A single tool therefore can be used in many different programs in many different fields. Typically, a program embodies a single tool, although increasingly, as we will see below, programs are coming to embody entire suites of tools. A central premise of the tools approach is that particular tools impart similar pressures and have similar operating requirements wherever they happen to be applied.

If tools are typically more general than programs, they are typically less general than policies. Policies are essentially collections of programs operating in a similar field or aimed at some general objective. The programs comprising a policy can all utilize a single tool (e.g., multiple grants-in-aid) or multiple tools. An interesting question that tools analysis raises is whether some tools are more appropriate for some policy objectives than others, an issue we return to below.

One other distinction worth making is that between *internal* tools and *external* tools. Internal tools refer to the procedures that governments use to handle their own internal operations. Included here would be basic procedures for personnel recruitment, human resource management, budgeting, and procurement for the supplies that government needs to operate. External tools, by contrast, are those used to affect society at large, not just the government. The focus of this book, and of the "new governance" approach, is on the latter type of tools, those that seek to affect society and not just the internal workings of government.

Tools as Bundles of Attributes

From what has been said, it should be clear that while the concept of a tool of public action is relatively straightforward, in reality tools are often quite complex. Any given tool is really a "package" that contains a number of different elements. These include:

- *A type of good or activity* (e.g., a cash or in-kind payment, a restriction or prohibition, the provision of information);
- *A delivery vehicle for this good or activity* (e.g., through a loan, an outright grant, a voucher, the direct provision of a service, or the tax system);
- *A delivery system, that is, a set of organizations that are engaged in providing the good, service, or activity* (e.g., a government agency, a nonprofit organization, a local government, a for-profit corporation); and
- *A set of rules, whether formal or informal, defining the relationships among the entities that comprise the delivery system.*

These multiple facets naturally complicate the task of sorting and describing tools, as we will see more fully below. Tools can be classified according to any of the different facets—the nature of the good or service, the delivery vehicle, the nature of the delivery system. This means that no single classification of tools is possible. Classification schemes will differ depending on which facet is used as the basis. Table 1-5 illustrates this point by portraying how some of the most commonly used tools compare to each other descriptively in terms of these four features. Thus, for example, loan guarantees provide cash delivered through a loan by commercial banks operating according to a set of rules that stipulate the conditions under which the government will reimburse the bank if the loan becomes uncollectable. By contrast, direct loans provide cash through loans delivered by a government agency.

The Challenge of Classification

This multidimensionality of policy tools naturally complicates the task of describing and sorting them. This is particularly true in view of the fact that unlike tools in the physical world, such as hammers, saws, and screwdrivers, the tools of public action rarely appear in pure form. Rather, they come bundled in particular programs, many of which combine more than one tool, and all of which bring different approaches to the design issues that each program must address. Beyond this, there is occasionally ambiguity about which features of a tool are truly the *defining features* and which are the *design features* that can vary with particular manifestations. For example, some observers treat “block grants,” a form of grant-in-aid that defines eligible purposes fairly broadly, as a separate tool from "categorical grants," which define eligible activities more narrowly. Other observers, however, consider this distinction inconsequential.[60]

Coupled with the considerable ingenuity that has characterized the design of public action in recent years, the multidimensionality of individual tools has made it difficult to reach consensus even on the number of tools that exist. Thus, Savas identified ten different arrangements that can be used just for the provision of public services, the U.S. Office of Management and Budget's *Catalog of Federal Assistance* identifies sixteen distinct tools, Osborne and Gaebler recorded thirty-six, and E. S. Kirschen of the Netherlands identified no fewer than sixty-three.[61]

TABLE 1-5 ***Common Tools of Public Action: Defining Features***

Tool	Product/Activity	Vehicle	Delivery System
Direct government	Good or service	Direct provision	Public agency
Social regulation	Prohibition	Rule	Public agency/regulatee
Economic regulation	Fair prices	Entry and rate controls	Regulatory commission
Contracting	Good or service	Contract and cash payment	Business, nonprofit organization
Grant	Good or service	Grant award/cash payment	Lower level of government, nonprofit
Direct loan	Cash	Loan	Public agency
Loan guarantee	Cash	Loan	Commercial bank
Insurance	Protection	Insurance policy	Public agency
Tax expenditure	Cash, incentives	Tax	Tax system
Fees, charges	Financial penalty	Tax	Tax system
Liability law	Social protections	Tort law	Court system
Government corporations	Good or service	Direct provision/loan	Quasi-public agency
Vouchers	Good or service	Consumer subsidy	Public agency/consumer

Complicating matters further is the fact that tools are often mislabeled, sometimes deliberately. For example, President Roosevelt insisted on including a symbolic employee contribution in the Social Security program so that this program could be characterized as "insurance," which was easier to sell politically, even though it lacks most of the defining features of insurance (current recipients receive their benefits from current wage earners not from their prior contributions to the trust fund). This mislabeling, whether deliberate or inadvertent, can play havoc with efforts to characterize tools and analyze their consequences.

All of this makes it difficult to reach clear consensus about the types of tools that exist. Several different classifications are available in the literature, but each uses a slightly different tool dimension as the basis for its grouping. Thus, Hood, in one of the earliest schemes, sorted tools in terms of two major dimensions: (1) the role of government for which they are used (i.e., detecting vs. effecting); and (2) the governmental resource they enlist (i.e., nodality, treasure, authority, or organization).[62] McDonnell and Elmore focused instead on the *strategy of intervention* that government uses, producing a fourfold division of tools into (1) mandates, (2) inducements, (3) capacity building, and (4) system changing.[63] Schneider and Ingram elaborated on this with a classification that focuses on the *behaviors* that programs seek to modify, leading to a fivefold distinction among: (1) authority tools, (2) incentive tools, (3) capacity tools, (4) symbolic or hortatory tools, and (5) learning tools.[64] Finally, Evert Vedung returned recently to a scheme first developed by F. C. J. van der Doelen and identified three classes of tools—carrots, sticks, and sermons—based on the extent of force that each involves.[65] Given this diversity, some analysts have begun to question whether the concept of a policy tool is rigorous enough to support any serious analysis.[66]

Our approach, by contrast, is to recognize this diversity not as a drawback of the tools approach, but as a strength. The fact is that tools have multiple dimensions in terms of which they can be compared and contrasted, and particular tools may be alike along some dimensions and different along others. This means that multiple classifications of tools are entirely appropriate since different classifications will highlight different facets. Thus, tools can be sorted in a two-step process: first, basic descriptive features can be used to define different tools; and second, various dimensions can then be identified in terms of which various tools so defined can be grouped together for analytical purposes.

But which dimensions are the most appropriate to use? Since the tools approach argues that various tool dimensions have significant consequences for how programs operate and what results they produce, the answer to this question depends, first, on which outcomes are of particular interest to us; and second, on which tool dimensions our theories suggest might affect them. Our approach to sorting tools therefore must be to focus on these two factors.

Evaluating Tools: The Criteria

So far as the first step in this process is concerned, the field of policy analysis has identified three criteria in terms of which public interventions are typically assessed: effectiveness, efficiency, and equity. The policy implementation and political science literature suggest two other criteria that also seem highly germane: manageability and political legitimacy. Taken together, this gives us five criteria in terms of which the consequences of tools can be assessed. Let us look briefly at each of these.

Effectiveness

Effectiveness is the most basic criterion for gauging the success of public action. It essentially measures the extent to which an activity achieves its intended objectives. Although considerations of cost can enter into this judgment, effectiveness judgments are typically made independent of costs. Using this criterion, the most effective tool is the one that most reliably allows action on a public problem to achieve its intended purposes.

Gauging the effectiveness of public action is far from easy, however. For one thing, as we have seen, program purposes are often quite ambiguous, either because precise indicators are technically difficult to locate or because conflicts exist about what really is the principal purpose. Indeed, such ambiguity is almost chronic in fragmented political systems like that in the United States, where multiple perspectives have ample opportunities to influence the definition of program objectives. This makes the choice of tool all the more important because ambiguity at the point of enactment pushes the specification of program purposes into the implementation process, where the choice of tool can have an even more decisive impact.

The effectiveness of different tools also varies with the circumstances. Not just the nature of the tool, but also the nature of the circumstances therefore must be considered when making tool choices. One of the major tasks of the tools approach, in fact, is to specify the circumstances under which particular tools are likely to be most effective. The tool of contracting has great advantages, for example, where a competitive market exists for the goods and services that government wants to buy. However, this is often not the case, so that the adoption of the contracting tool in such circumstances can lead to great disappointments. Since other considerations are often involved in tool choices, the new governance can hardly avoid such dilemmas. However, it can at least clarify the risks and point up the tradeoffs involved.

Efficiency

Where effectiveness focuses exclusively on results, a second criterion—efficiency—balances results against costs. The most efficient tool may not be the most effective one. Rather, it is the one that achieves the optimum balance between benefits and costs.

The costs that are relevant to a judgment about the efficiency of a tool are not only the ones that show up on the ledger of the government that authorizes the program, however. The costs imposed on nongovernmental institutions are also relevant, and for some tools these are far more immense. Regulation, for example, places heavy compliance costs on private businesses that never show up in the balance sheet of government. Indeed, with severe fiscal pressures on governments, there is a strong incentive to utilize tools that have precisely this effect. This suggests the need for a "double balance sheet" to assess the efficiency of various tools, one focused on the costs to government alone and one focused on the costs to other social actors as well.

Equity

A third crucial criterion in terms of which the consequences of tools can be judged is *equity*. The criterion of equity has two different meanings, however. The first of these involves basic fairness—the distribution of benefits and costs more or less evenly among all those eligible. A tool that facilitates the distribution of program benefits evenly across the country thus can be considered equitable in this "fairness" sense.

However, equity also has a different connotation relating to "redistribution," to channeling benefits disproportionately to those who lack them. Achieving such redistribution is, in fact, one of the principal rationales for public action. In this view, government exists in part to remedy past inequalities and ensure equal opportunity and access to all. Students of policy thus distinguish between *distributive* programs, which essentially distribute benefits evenly among a class of recipients; and *redistributive* programs, which tilt the benefits toward the disadvantaged.[67] Some tools might be more likely to serve such redistributive goals than others.

Manageability

In addition to the classic economic criteria of effectiveness, efficiency, and equity, recent research on program implementation suggests the importance of manageability, or "implementability," as an additional criterion in terms of which to assess tools. Implementability refers to the ease or difficulty involved in operating programs. The more complex and convoluted the tool, the more separate actors are involved, the more difficult it is likely to be to manage. Some tools are more cumbersome to operate than others. While they may promise great efficiency and effectiveness in theory, they are unlikely to deliver it in practice because of the managerial difficulties they pose. It was for this reason that Jeffrey Pressman and Aaron Wildavsky identified implementability as the "first rule" of program design.[68] Generally speaking, this presumably means choosing simpler, more direct tools.

Legitimacy and Political Feasibility

Finally, tool choices can also affect the political feasibility and perceived legitimacy of public action. They do this, in the first instance, by helping to determine which actors, and hence which interests, get to shape program implementation, and therefore which are most likely to support or oppose program passage. Clearly, no matter what the prospects for effectiveness, a program that cannot win political support cannot make headway.

Beyond this, tool choices can also affect broader public perceptions of the legitimacy of public action. As we have seen, some approaches are considered more legitimate than others in particular national settings regardless of their technical advantages.[69] Quite apart from such national styles, the choice of tool can affect the perceived legitimacy of public action in other ways as well. For one thing, some tools may facilitate accountability for the exercise of public authority or the spending of public funds better than others, a matter of some importance in a democratic society where such accountability is highly valued. So, too, the choice of tool can affect the extent to which the public can perceive a link between the taxes they pay and the services they receive. The more this link is attenuated or broken, the greater the degree of alienation between government and citizens and the greater the risk to democratic participation.[70] Tool choices thus can affect the overall sense of legitimacy that government enjoys in the eyes of citizens.

Key Tool Dimensions

Armed with this set of criteria, it is possible to identify more precisely which tool dimensions are likely to be most important, and therefore how best to classify tools for analytical purposes. Rather than focus on a single dimension that can work for all purposes, however, the discussion above suggests the need for a range of dimensions in terms of which tools can be compared and contrasted. Tools can differ from each other along one dimension and be similar along others. Only in this way will it be possible to clarify the full matrix of choices that policymakers face and the significant tradeoffs that exist among them.

More specifically, five key tool dimensions seem most likely to have implications for the kinds of consequences identified above. These are not, of course, the only tool dimensions that might be important. Nevertheless, they usefully illustrate the analytical power that the "new governance," and its tools framework, possess.

Degree of Coerciveness

Perhaps the most salient of these dimensions has to do with the nature of the activity that a tool embodies, and particularly with the degree of coercion that it utilizes.

Essentially, this dimension measures the *extent to which a tool restricts individual or group behavior as opposed to merely encouraging or discouraging it.*

This coerciveness dimension is probably the most common basis for classifying tools in the literature.[71] Economists in particular consider this dimension important since it essentially measures the extent to which a tool involves a deviation from reliance on the market as a mechanism to allocate resources and settle social roles. Such deviations are commonly viewed by economists as inappropriate except where "market imperfections" make them imperative.[72]

BOX 1-2 *Coercion*

Coercion measures the extent to which a tool restricts individual or group behavior as opposed to merely encouraging or discouraging it.

The coerciveness of tools is also of concern to political scientists. This is so because coercion has implications not only for the operation of the market, but also for the operation of the political system, and especially for the preservation of democracy. Of particular concern is the degree of infringement on individual liberty that a tool entails. In a political democracy, all such infringements are viewed with skepticism and are expected to be undertaken only with clear popular authority. As we have seen, much of the classic theory of public administration, with its stress on the distinction between politics and administration, took shape in response to this concern to root administrative authority clearly in democratic decisionmaking. The more coercive the tool, the greater the infringement on individual liberty, the greater the potential threat to political legitimacy, and therefore the greater the burden of proof on those advocating the program embodying it.

Although almost all government action involves at least some degree of coercion, there are considerable differences among tools in the extent to which they rely on it. This is apparent in Table 1-6, which groups the various tools of public action in terms of the degree of coercion they utilize. Thus:

- At the low end of the coerciveness scale are tort liability, tax expenditures, and public information campaigns. All of these essentially rely on the voluntary cooperation of individuals and groups for their effects, although as Chapter 7 shows even information tools can involve considerable coercion if information crosses the border into indoctrination.

- In a “medium” category are a variety of tools that deliver subsidies of various sorts. The least coercive of these are vouchers, which deliver subsidies directly to consumers and leave it to them to do (or not do) what the program is seeking to encourage. Somewhat more restrictive are grants-in-aid, loan guarantees, direct loans, and contracting, which tend to exact more requirements in return for the subsidies they offer. On the outer border of this category are mandatory labeling and corrective fees and charges, which impose potential burdens on those who fail to comply. These fees are still in some sense voluntary, however, since the citizen is still permitted to engage in the penalized behavior but has to pay a fine or tax on it.
- Finally, in the “highly coercive” category are social and economic regulations, both of which impose formal limitations on activities considered undesirable.

Based on the implementation literature reviewed earlier, it seems reasonable to hypothesize that, other things being equal, the more coercive the tool, the more *effective* it is likely to be, and the more likely to yield *redistributive* results, as shown in

Table 1-6. These consequences flow from the clearer authority these tools give governments to act, the limited leeway they allow private actors to deviate from specified program purposes, and the limited costs that governments incur in operating them since much of the burden is imposed on external actors. Because of this, these tools are also more likely to generate political support among those most eager to engage government in a particular form of social action.

These features may help to explain why the consumer and environmental movements of the 1970s in the United States insisted on command-and-control regulatory arrangements, even though most academic economists cautioned against the use of this tool. After years of political struggle against often-powerful entrenched interests, advocates of protection typically wanted tools that provided the maximum certainty that the goals they sought would actually be achieved. Less coercive tools, even when backed by sophisticated economic theories, were often not able to provide this assurance.

The problem, however, is that coercive instruments purchase these advantages at a relatively high price, as Table 1-6 also shows. For one thing, they often entail a loss of *efficiency*, for society at large if not for government. This has been a central theme of economic critiques of social regulation: that the apparent efficiency this tool enjoys from the point of view of government is misleading since it focuses exclusively on the government's costs, which are trivial, and overlooks the far more substantial costs such regulations impose on the private sector. Critics argue, in fact, that these social costs are likely be higher than necessary under regulation because by replacing market decisions with administrative ones regulation surrenders the market's efficiencies. The solution, economists like Charles Schultze therefore have argued, is not improved regulatory management but a change in the basic tool being used: in particular, a shift to less coercive tools that utilize marketlike incentives and thus make "public use of private interest."[73]

TABLE 1-6 ***Policy Tools Grouped by Degree of Coerciveness***

		LIKELY IMPACTS				
Degree of Coerciveness	*Illustrative Tools*	*Effectiveness*	*Efficiency*	*Equity*	*Manageability*	*Legitimacy/ Political Support*
Low	Tort liability Information Tax expenditures	Low	Moderate	Low	Moderate	High
Medium	Vouchers Insurance Grants-in-aid Government corporations Loan guarantees Direct loans Contracting Labeling requirements Corrective taxes	Moderate	High	Moderate	Moderate	Moderate
High	Economic regulation Social regulation	High	High/Low	High	Low	High/Low

Coercive tools can also be more difficult to *manage* since they impose on administrative agencies the difficult job of keeping abreast of literally thousands of decisions made by hundreds of private entities in widely disparate settings. As Schultze has put it, under social regulation "[s]ocial intervention becomes a race between the ingenuity of the regulatee and the loophole closing of the regulator, with a continuing expansion in the volume of regulations as the outcome."[74]

Finally, because they restrict human freedom, coercive tools are presumptively suspect in liberal political regimes and therefore are vulnerable to political attack. As the political movements leading to the enactment of these tools subside, as they frequently do, therefore, the agencies administering them often find themselves face-to-face with hostile vested interests determined to use the full panoply of legal protections available to them to rein in public authority. To avoid being totally hamstrung, agencies often find it prudent to reach some *modus vivendi* with the affected interests. The result is the well-known phenomenon of "agency capture" by those it is seeking to control.[75]

Directness

While the degree of coerciveness is by far the most common basis for differentiating policy tools in the literature, it is by no means the only possible basis. To the contrary, the implementation literature of the 1970s and 1980s points our attention to another dimension that may be equally, or more, important, as the discussion above has already suggested. This dimension has to do with the *nature of the delivery system* that a tool utilizes, and particularly its degree of *directness*.

Directness measures the extent to which the entity authorizing, financing, or inaugurating a collective activity is involved in carrying it out. Underlying this concept are two crucial observations: first, that any effort to cope with a public problem is really made up of a number of separate activities; and second, that these different activities need not be carried out by the same entity. Thus, for example, it is possible to distinguish between the financing of a public service and its delivery. Moreover, each of these can be handled either publicly or privately. This creates a minimum of four possible combinations, as shown in Table 1-7: (1) public finance and public delivery; (2) public finance and private delivery; (3) private finance and public delivery; and (4) private finance and private delivery. The first of these, depicted in Cell A in Table 1-7, represents the stereotypical view of how government operates: government raises revenues through taxes and uses them to support the delivery of services to citizens by a government agency. As we have seen, however, this turns out not to be the most common pattern at all, certainly not at the national level in the United States. For one thing, even when the public sector is involved in both finance and service delivery, it is often not the same level of government that performs both functions. Rather, the federal government may raise some or most of the revenues, but it then often shifts them to state or local governments to finance the actual delivery of the services. Thus, Cell A itself becomes subdivided into four subcells. Alternatively, the public sector—either national or local—can raise the revenues but then contract with the private sector to deliver the services (Cell B). What is more, the private entities involved can be either for-profit or nonprofit firms. Finally, any of these delivery mechanisms can be connected to a private system of finance. Thus, for example, a public agency can charge a user fee for the services it provides, in which case the finance is private but the delivery public (Cell C of Table 1-7). Alternatively, special tax advantages can be provided for private purchases of services such as day care (Cell D of Table 1-7). All of these are forms of *public* action in the sense that they engage governmental authority, but each utilizes this authority in a different way and for a different part of the process.

TABLE 1-7 ***Patterns of Public Problem Diving***

	FINANCE	
Delivery	*Public*	*Private*
Public (1) National (2) State/local	A	C
Private (1) Nonprofit (2) For-profit	B	D

Even this does not exhaust the range of combinations that is possible, however, since raising revenues and providing services are hardly the only actions that public problem solving can involve. Some tools—such as regulations—do not involve services or finances at all, but rather restrictions. In others, the services themselves are financial (e.g., the provision of mortgage finance for housing purchase). Imposing charges, creating inducements, providing information, delivering benefits—all of these as well can be used to promote public purposes. As a result, an extraordinary range of possibilities exists for combining public and private institutions in public problem solving.

Given these possibilities, it should be clear that “directness” is a matter of degree and that different tools can vary greatly in the degree of directness they embody. Generally speaking, the more the various functions involved in the operation of a public activity are carried out by the same institution, the more direct the tool. Thus, a direct tool is one in which authorization, funding, and/or delivery are all carried out by essentially the same governmental entity. Indirect tools parcel these various functions out to various other parties—semiautonomous agencies, other levels of government, community groups, nonprofit organizations, commercial banks, hospitals, and others. The more extensively functions are performed by “third parties,” the more organizationally distinct and autonomous these third parties are from the authorizing body, and the greater the discretion the third parties enjoy in the conduct of their functions, the more *indirect* the tool. Thus, for example, tax expenditures are typically more indirect than contracts since they leave more discretion in the hands of citizens; however, grants are more indirect than tax expenditures because they surrender authority to other sovereign units of government, and these typically have greater powers to resist. All three of these are more indirect than service provision by government agencies, however.[76]

Table 1-8 illustrates this point by ranking tools in terms of their relative degree of directness. Thus, at the low end of the directness continuum are tort liability and grants, while at the high end are direct government service provision, government corporations, and information campaigns that governments conduct themselves. In between are tax expenditures (which leave considerable choice to recipients but nevertheless are administered by the enacting government), contracts, and, in the American context, federal social regulations that make extensive use of state and local governments.

As the grouping of tools here suggests, there is some overlap between the degree of coerciveness BOX 1-3 *Directness* and the degree of directness of a tool. This is so because the more coercive tools are difficult to implement through indirect delivery systems. However, this overlap is far from complete. For example, information campaigns, one of the least coercive tools, are typically operated directly while social regulation, the most coercive, often leave ample opportunity for involvement by lower levels of government. Clearly, these two tool dimensions tap different facets of tool operations.

BOX 1-3 ***Directness***

Directness measures the extent to which the entity authorizing, financing, or inaugurating a public activity is involved in carrying it out. A direct tool is one in which authorization, funding, and execution are all carried out by essentially the same entity.

In classical public administration, a distinction between direct and indirect tools makes little sense since it is taken for granted that a publicly authorized and funded program should be carried out by a duly constituted, and staffed, public agency. Yet, as we have seen, much of the growth of government action over the last half century, especially in the United States, has taken place through indirect tools—such as grants, loan guarantees, tax expenditures, vouchers, and indirect regulation. The result, as noted earlier, is an elaborate system of "third-party government" that vests a substantial portion of the discretionary authority over the spending of public funds and the operation of public programs in the hands of a variety of third-party partners. Indeed, many tools that operate directly in other countries take a more indirect form in the American context. Thus, for example, many European countries rely on public enterprise to handle the natural monopolies that often exist in public utility industries (e.g., electricity, telephones), whereas the United States tends to leave these businesses in private hands and subject them to economic regulation. The United States has also used more indirect approaches in its social regulatory programs in such areas as the environment, worker safety, and health. While establishing national standards, these programs leave much of the responsibility for implementation in the hands of state and local governments and those being regulated.

TABLE 1-8 ***Policy Tools Grouped by Degree of Directness***

		LIKELY IMPACTS				
Degree of Directness	*Illustrative Tools*	*Effectiveness*	*Efficiency*	*Equity*	*Manageability*	*Legitimacy/ Political Support*
Low	Tort liability Grants Loan guarantees Government-sponsored enterprises Vouchers	Low	High	Low	Low	High
Medium	Tax expenditures Contracting Social regulation Labeling requirements Corrective taxes/ charges	Low/Med.	Medium	Low	Low	High
High	Insurance Direct loans Economic regulation Public Information Government corporations Direct government	High	Medium	High	High	Low

One reason for the popularity of third-party government appears to be the political advantages that indirect tools enjoy. In particular, indirect tools provide important opportunities to cut affected interests into a "piece of the action" when government programs threaten to infringe on their fields. The more fragmented political power is in a country and the more controversial the issue, therefore, the more likely it will be that indirect devices are used. Thus, for example, in recent American experience:

- By using a cost-based reimbursement "voucher" whose proceeds flowed to existing hospitals, it was possible to defuse the medical community's opposition to the creation of the federal Medicare program in the 1960s;

- By relying on loan guarantees instead of direct loans, it was possible to neutralize commercial bank opposition to federal involvement in home mortgage lending in the 1930s; and
- By using grants and purchase-of-service contracts, it was possible to enlist research universities to support the expansion of federal involvement in scientific research, and private nonprofit organizations to support the expansion of federal involvement in social services for the poor.

Federal constitutional structures also contribute importantly to the widespread use of indirect forms of action. For much of American history, for example, the federal government's authority to act on a wide range of domestic policy issues has been contested thanks to constitutional provisions limiting the federal role and a political structure and system of representation firmly anchored at the state and local levels.[77] Use of indirect tools—particularly the grant-in-aid—has thus often been a political and constitutional prerequisite for any federal involvement. State and local officials have frequently resisted federal involvement unless that involvement is channeled through them, and a meaningful degree of discretion is left to them in the definition of the policy substance. Interests opposed to federal involvement have often used their influence at the state and local level to insist on a significant state and local role as a way to retain some degree of influence over the implementation of policies with which they disagree. Use of indirect tools thus becomes the basis for political compromise, shifting the battle over the definition of policy from the enactment stage to the implementation stage where state and local officials, and the interests that are more powerful at the state and local level, can play a more meaningful role. The use of indirect tools for federal environmental and welfare policy is probably attributable in substantial part to this factor.[78]

These political advantages of indirect tools are hardly unique to the American context, however. Reliance on indirect instruments of public action is increasingly common in other countries as well, driven by historical traditions of "subsidiarity,"[79] by a growing diversification of social and political power, by deepening doubts about the capabilities of state action alone to cope with complex social and economic problems, and by a resulting inability of governments to secure sufficient authority to act on their own.[80]

The political advantages of indirect tools are not their only benefits, however. At least three other benefits are often claimed for them:

- First, indirect tools can inject a useful degree of competition into the provision of public services, breaking the monopoly of governmental agencies and thereby potentially improving service quality and "customer orientation."
- Second, indirect tools can provide access to talents and resources that are desperately needed to cope with complex public problems, but that public agencies may not command. These include technical talents (e.g., university researchers, private service providers, loan officers) as well as financial and physical resources (existing facilities, charitable contributions). Indirect tools therefore can extend the reach of public agencies, making it possible for them to avoid costly start-up problems and maximizing the energies that can be brought to bear on public problems.
- Finally, indirect tools offer a greater degree of flexibility,

making it easier for government to experiment, to change course when needed, and thus to remain responsive to new needs. This is so because the authorizing government does not have to create the entire administrative structure to operate an initiative.

While indirect tools may have important political and operational advantages, however, they also carry with them offsetting liabilities. For one thing, as Table 1-8 also notes, they can be far less effective and far more difficult to manage. This certainly seems to be one of the central conclusions of the implementation literature of the 1970s and 1980s. In his 1979 study of the implementation of three human service programs in Massachusetts, for example, Stuart Chase found that the most serious implementation problem was the presence "of some player or players in the implementation process whom the program manager does not control but whose cooperation or assistance is required."[81] Jeffrey Pressman and Aaron Wildavsky similarly found that even clear specification of goals and general concurrence on desired outcomes are no guarantee of success when multiple actors are involved in executing a program. The sheer mechanics of securing agreement at each stage of the process can still inject debilitating delays. No wonder “more direct means for accomplishing … desired ends” is their recommended “first rule in program design.”[82]

Experience with indirect tools of public action thus has ironically provided new reason to value bureaucracy. “The costs of bureaucracy—a preference for procedure over purpose or seeking the lowest common denominator—may emerge in a different light,” Pressman and Wildavsky thus note, “when they are viewed as part of the price paid for predictability of agreement over time among diverse participants.”[83] By internalizing transactions, minimizing the legalisms involved in complex contractual negotiations with external actors, and providing a more stable framework for bargaining, direct government offers distinct advantages for accomplishing complex tasks.[84]

These conclusions find considerable support, moreover, in the new economic theories of organization. According to these theories, the “principal-agent” problems that inevitably arise *within* organizations are even more severe in cross-organizational relationships. This is so because having all of the factors of production in a single entity creates certain advantages:[85]

- It permits a more creative reward structure to induce agents to pursue the principal's objectives.
- It helps convey the expectation that all involved should work to a common purpose.
- It may help diminish the losses associated with breakdowns and delays in bargaining.

When multiple organizations are involved in a given task, the chances increase that the interests and values of the principal and the agents will diverge. The more dispersed the authority, therefore, and the less the coincidence of interests and perspectives between principals and agents, the greater the risk of goal displacement and principalagent difficulties. Not just the extent of indirectness but also the type of third-party partner a tool engages thus can affect the extent to which public purposes are achieved. Public-sector managers of human service programs thus have traditionally shown a preference for nonprofit contractors over for-profit ones when service contracting has been employed on the grounds that nonprofits are more likely to share the objectives of the public sector. Where principals and agents lack a shared set of values or world-views, the task of ensuring that the principal's objectives are being served grows more complex and more problematic.

Not only does the directness of tools have implications for the overall effectiveness of programs, it also may have particular implications for their ability to promote *equity and redistribution goals*. This is especially the case where the partners brought into the operation of a public program by a tool lack incentives to achieve these equity goals. Yet, this is often the case with private businesses. As management theorist Regina Herzlinger has pointed out, "when resources are given to providers who in turn have the discretion to allocate the goods and services they produce … [the] providers will try to attract consumers who will improve their measurable performance."[86] In the process, however, redistributive goals may be sacrificed as producers engage in "creaming" to attract better-off clients. While public agencies themselves are hardly immune from these pressures, the risks appear greater with indirect tools.

Finally, while enjoying important immediate political advantages, indirect tools also suffer from certain longer-term political limitations. In particular, they weaken the perceived link between citizens and government by channeling services financed by public revenues to recipients through private intermediaries or other levels of government. In the process, the connection between the taxes citizens pay and the services they receive can become dangerously attenuated.[87]

In short, despite their advantages, indirect tools are especially difficult to manage. Far from easing the public management problem, as is often supposed, they significantly complicate it instead.

Automaticity

A third key dimension in terms of which policy tools can be differentiated is the level of *automaticity* they embody. Automaticity measures the extent to which a tool utilizes an existing administrative structure for its operations rather than creating its own special administrative apparatus.

Tools that utilize the market, for example, are highly automatic. This would include corrective fees and charges or the "tradable permit" system authorized by the 1990 Clean Air Act Amendments.[88] Vouchers are another example of a market-based tool: by placing purchasing power in the hands of program beneficiaries rather than the institutions that serve them, vouchers equip these beneficiaries to make use of the market rather than an administrative mechanism to select the quantity and quality of services they will receive.

BOX 1-4 ***Automaticity***

Automaticity measures the extent to which a tool utilizes an existing administrative structure to produce its effect rather than having to create its own special administrative apparatus.

The market is not the only existing system that can be mobilized to carry out public purposes, however. Others include the tax system, the private credit system, the court system, and, to a lesser extent, the networks of local governments and private, nonprofit agencies. Where these existing systems are operational, important options exist for structuring public interventions in ways that build on them rather than having to establish separate administrative structures. Therefore, a certain overlap exists between the automaticity dimension and the directness dimension of tools. However, not all automatic tools are indirect, and not all indirect tools are automatic. For example, tax expenditures are automatic but not wholly indirect, whereas contracting is indirect but far from wholly automatic.

Table 1-9 below arranges various tools of public action in terms of their reliance on automatic, nonadministered processes. As this table shows, tools embodying fees and charges, vouchers, or tax expenditures are relatively automatic, as is the use of the existing tort law system to control environmental damage or ensure workplace safety. By contrast, social regulation, direct service programs, and government information campaigns are at the low end of the automaticity spectrum. In between are tools such as grants and contracting, which have some automatic features but operate within essentially administered systems.

Like the other tool dimensions we have examined, there is reason to believe that the automaticity dimension has significant implications for the performance of programs. Indeed, in a 1972 book on the preconditions of public program success, economist Robert Levine identifies this dimension as the single most important determinant of public program success. Programs are most likely to fail, Levine argued, when they rely on "highly administered systems." Instead, more reliance should be placed on "marketlike and bargaining systems that combine the workable features of decentralization, self-administration, personal economic or political motivation, and the gross application of public policy rather than systems administered in detail by public officials to private clienteles according to plans laid out in detail by public planners."[89]

Economist Charles Schultze reached a similar conclusion in his pioneering 1977 analysis of regulatory programs, criticizing prevailing regulatory approaches as inherently inefficient because they utilize command and control techniques rather than relying on the automatic mechanisms of the market to promote public objectives. Instead of prescribing what antipollution devices polluters must install to clear the nation's rivers, for example, Schultze recommends making "public use of private interest" by imposing effluent charges that would give polluters an economic incentive to find the lowest-cost way to meet environmental goals.[90]

TABLE 1-9 ***Policy Tools Grouped by Degree of Automaticity***

		LIKELY IMPACTS				
Degree of Automaticity	*Illustrative Tools*	*Effectiveness*	*Efficiency*	*Equity*	*Manageability*	*Political Support*
Low	Economic regulation Social regulation Direct government Government corporations Information Direct loans Insurance	High	Low	High	Moderate/Low	High
Medium	Grants Contracting Loan guarantees Labeling requirements	Moderate	High	Moderate	Low	Moderate
High	Vouchers Tax expenditures Corrective taxes/ charges Tort liability	Low	High	Moderate/Low	High/Moderate	Moderate

Because they make use of existing mechanisms, such as the market, automatic tools can also be expected to be more *manageable*. In a sense, they reduce the *amount* of public management that is necessary, substituting for it the control systems already built into these existing systems—the market, the tax system, the court system, or the private banking system.

For all their appeal, however, automatic tools have proved in practice to fall significantly short of their promise. For one thing, there is reason to question how *effective* they are. The great advantage of automatic tools is that they make it possible to enlist existing systems in the pursuit of new objectives.

However, this advantage is also the source of serious problems since these systems typically have their own objectives and dynamics. There is always a question, therefore, whether the public objectives will redirect the existing system or the existing system will co-opt, and distort, the public objectives. After all, it is the failure of the existing systems that often necessitates public involvement in the first place. For example, the demands for environmental and safety regulation grew directly out of disappointments with the effectiveness of tort law and the court system to handle consumer and environmental problems.

The effectiveness of automatic tools thus depends on identifying the incentives that can turn existing systems to desired public purposes. In practice this has proved to be more difficult than often assumed. Economist Robert Levine, for example, acknowledged "the hard barrier of our lack of knowledge about what incentives work for officials of local government. …"[91] The incentive structures of for-profit businesses are presumably easier to fathom, but even here complications arise. Contracting, for example, is assumed to be a fairly automatic tool because of its reliance on the private market. However, this assumes that a competitive market actually exists for the goods and services needed to address public problems. In fact, however, this critical prerequisite is often lacking in government contracting since government is often in the position of purchasing goods and services that are not generally available on the open market (e.g., military aircraft) in markets where the number of suppliers is highly constricted. Complicating matters further is the fact that the desired outputs in public programs are often difficult to specify and then to achieve (e.g., getting the most disadvantaged welfare recipients into permanent jobs). As management specialist Regina Herzlinger has noted, this makes it extremely difficult to "structur[e] enforceable contracts with the private sector" and to exercise the control function that such contracts require.[92]

Similar problems have arisen with voucher programs. The effectiveness of vouchers depends critically on the responsiveness of markets to the kind of demand that voucher recipients will make and on the ability of voucher recipients to make wise decisions. Both of these are often problematic, however, making vouchers potentially a source of windfall profits for providers without making recipients significantly better off.

Perhaps because of these problems, automatic tools also have political problems. On the one hand, their reliance on existing structures lends them a certain political legitimacy. However, because they enlist institutions and processes that have somewhat different objectives, such tools can rarely attract the enthusiastic support of those pushing for a policy initiative. Environmental advocates thus have been reluctant to embrace the concept of tradable pollution permits for fear that this would legitimize the right to pollute and create “hot spots” of heavy pollution in less desirable neighborhoods. Consumer advocates have similarly resisted the idea of weighing the value of a human life against the cost of protection in structuring approaches to workplace or consumer safety. Therefore, despite their claims to greater efficiency, automatic tools have often lacked a political constituency.

Finally, experience with automatic tools has raised some serious questions about how easy they are to manage. Seemingly automatic tools turn out to be far more cumbersome to administer than advocates assume. Tradable permitting schemes, for example, still require the establishment of initial threshold pollution levels, the estimation of pollution charges that are consistent with prevailing technology and industry incentive structures, the collection of detailed information on actual pollution levels, and the maintenance and operation of a market in pollution rights.[93] As with the other tool dimensions, therefore, this one too involves difficult tradeoffs in terms of the criteria outlined earlier.

Visibility

The fourth tool dimension that seems likely to be important is the degree of visibility a tool exhibits in the normal policy review processes, particularly the budget process. Obviously, this dimension is highly sensitive to the structure of these processes. Thus, for example, countries that do not utilize a capital budget, like the United States, tend to put direct lending programs at a competitive disadvantage by requiring that the full value of a loan show up on the operating budget as an expenditure the year in which the loan is made.

Until changes were made in 1990, this gave a real advantage to loan guarantee programs over direct lending programs since the value of loan guarantees shows up on the budget only if and when they go into default. Similarly, until the 1970s in the United States no official record was kept of tax expenditures, making them largely invisible in the annual budget process.[94] Not until the 1990s, moreover, were such tax expenditures considered in the normal budget decisionmaking process.

BOX 1-5 ***Visibility***

Visibility measures the extent to which the resources devoted to a tool show up in the normal government budgeting and policy review processes.

While the visibility of tools may be affected by the accounting practices in place, however, there are still some general structural features of tools that affect their standing along this dimension. Table 1-10 thus offers a tentative grouping of tools in terms of their degree of visibility. As shown there, insurance and regulatory tools are still relatively invisible, whereas direct government, grants, contracts, and vouchers tend to be more visible. Loan guarantees and tax expenditures are examples of tools that were once largely invisible in normal budget processes in the United States but have become more visible in recent years as a result of accounting changes designed to bring them into better view. Similar changes have been under way for more than a decade to increase the visibility of social regulatory programs by requiring economic impact analyses before regulations go into effect.

Visibility has perhaps its greatest impact in the political realm. At a time of budgetary stringency, invisibility is a tremendous political asset. Invisible tools therefore are the easiest to pass. This may explain why regulation, loan guarantees, and tax subsidies grew so massively in the 1970s and 1980s. Although different in many respects, all of these tools shared a low level of visibility in the normal budgetary process. In the case of loan guarantees, for example, until passage of new credit budgeting procedures in 1990, only the projected losses from loan guarantee defaults were carried on government budgets, while the face value of the contingent liabilities were relegated to a special annex. A similar procedure is used with insurance programs. In the case of regulation, only the direct cost of the regulatory agency personnel show up in the government's budget, whereas the indirect costs imposed on businesses and households are largely invisible. Finally, in the case of tax expenditures, until the adoption of the Budget and Accounting Act in 1974, these were largely invisible as well in the budget process, and it was not until the early 1990s that lawmakers were required to take explicit account of such tax expenditures in making annual budget decisions.

This dimension may also explain why corrective fees and charges have made rather limited headway as vehicles for environmental control despite the advantages claimed for them as efficient mechanisms of public action. Unlike tax expenditures, which are essentially invisible, corrective taxes and fees are highly visible and therefore harder to enact.

The very feature that makes invisible tools so attractive politically, however, makes them problematic along other dimensions. Most obviously, the less visible the tool, the more difficult it is to hold accountable. This can have implications for the *efficiency* of programs embodying this tool. One of the central criticisms of regulatory programs, for example, is that by keeping their true costs hidden, they impose burdens on the economy that are far greater than are needed to accomplish their purpose. Similarly, tax expenditures are sometimes accused of delivering windfall gains to taxpayers who would engage in a particular activity even in the absence of the subsidy. Programs embodying tax subsidies therefore may be highly inefficient, paying unnecessarily for behavior that would have occurred anyway. This same concern applies to insurance programs. Far from preventing activities that entail risk—such as locating houses in flood plains—insurance programs may inadvertently encourage them. However, their relative invisibility keeps the inefficiencies of these tools from being recognized and addressed.

TABLE 1-10 ***Policy Tools Grouped by Degree of Visibility***

		LIKELY IMPACTS				
Degree of Visibility	*Illustrative Tools*	*Effectiveness*	*Efficiency*	*Equity*	*Manageability*	*Legitimacy/ Political Support*
Low	Economic regulation Social regulation Labeling requirements Insurance Tort liability	N/A	Low	Low	Low	High
Medium	Contracting Information campaigns Loan guarantees Tax expenditures	N/A	Moderate	Moderate	Moderate	Moderate
High	Direct government Government corporations Grants-in-aid Direct loans Vouchers Corrective taxes/ charges	N/A	High	High	Low	Low

Because of these accountability problems, those opposed to public spending tend to resist the use of invisible tools. On the other hand, those on the receiving end of public largesse naturally prefer to have their benefits delivered in the least visible form. What this means in practice is that the stronger the constituency, the less visible the tool it is likely to be able to use for any benefits it receives. This may explain why low-income welfare recipients receive their benefits through highly visible grants-in-aid, whereas middle-class homeowners receive theirs through far less visible tax expenditures.

The visibility of tools may also have implications for the extent to which they are used to pursue equity goals because of the legitimacy attached to equity goals in the political arena. Therefore, the more visible the tool a program uses, the more likely the program will be to serve redistributive goals. Conversely, the more special subgroups of the population, such as oil-well owners or large investors, are being targeted for benefits, the more attractive it will be to use less visible tools.

V. FROM ANALYTICS TO ACTION: RESOLVING THE PARADOX OF THIRD-PARTY GOVERNMENT

The four dimensions identified above hardly exhaust the bases for classifying different tools of public action and analyzing their effects. Further fruitful distinctions can be drawn, for example, between tools that deliver their benefits in the form of cash versus those that deliver them "in kind"[95]; and between those that operate through producers and those that deliver their benefits directly to consumers.[96] What is more, at this stage of research the relationships between tool dimensions and tool consequences are more in the nature of plausible hypotheses than proven facts.

Even with these caveats, however, it should be clear that the "new governance" approach, and the tools framework on which it rests, has considerable analytic power as a source of insights into the challenges of public problem solving in the era of third-party government. Perhaps most fundamentally, the discussion has pointed up a critical paradox that seems to characterize contemporary efforts to respond to public problems. That paradox, very simply, is this: *policymakers seem to be under increasing political pressures to select those tools of public action that are the most difficult to manage and the hardest to keep focused on their public objectives*.

More specifically, a variety of factors—the growing fragmentation of political power, the increased complexity of public problems, the recent skepticism of government, the preoccupation with efficiency as the major criterion for public action—have put a premium on tools that are indirect, invisible, and automatic. Such tools have the advantage of defusing political opposition to governmental action, recruiting new talents and resources to the tasks of public problem solving, and avoiding the enlargement of the public sector. At the same time, however, they have the disadvantage of vastly complicating the tasks of public management and risking the subversion of public purposes. In a sense, we seem caught in a vicious circle in which disappointment with public action yields forms of such action that seem most likely to further disappoint. Clearly, the future of collective efforts to respond to public problems will remain gloomy unless this paradox can be resolved.

For this to be possible, however, it will be necessary to move beyond slogans and address the three critical challenges associated with the rise of third-party government:

The Management Challenge

The first of these is the management challenge. Contrary to the hopeful assumptions of some, third-party government poses immense management challenge. Contrary to the hopeful assumptions of some, third-party government poses immense management challenges, perhaps far more immense than those posed by traditional public administration. With power dispersed and numerous semiautonomous entities involved in the operation of public programs, even straightforward tasks become difficult. Indirect tools require advanced planning of far more operational details than is the case with more direct tools. Matters that could be dealt with internally on an *ad hoc* basis in direct government have to be settled in advance through legally binding contracts under “third-party government.” Similarly, incentives have to be devised sufficient to induce desired behavior but not so substantial as to yield windfall gains; concurrence has to be secured at numerous points in complex decision chains; and disparate organizations have to be forged into effective networks capable of integrated action. Each of these tasks requires not only extensive programmatic knowledge, but also considerable diplomatic skill as well as detailed knowledge of the operational parameters of the different tools and the internal dynamics of the entities that the tool engages. Also necessary is a sophisticated appreciation of the context in which the tool is being deployed and how this compares to the conditions required for the tool to function optimally.

The Accountability Challenge

Side-by-side with this management challenge is the accountability challenge that third-party government poses. As noted, many of the newer tools of public action vest substantial discretionary authority in entities other than those with ultimate responsibility for the results. What is more, these other entities have their own autonomous sources of authority that allow them to operate with considerable independence of the authorizing body: they include sovereign state and local governments, private commercial banks, independent nonprofit organizations, profit-seeking companies, and universities, hospitals with powerful governing boards. Each of these enters its relationship with governmental authorities on its own terms, with its own expectations, objectives, and bottom line. What is more, as we have seen, the choice of the instrument that structures these relationships is often dictated as much by political considerations as by the appropriateness of the instrument for the purpose at hand. Under these circumstances, classical notions of democratic accountability may need to be loosened and more pluralistic conceptions developed. However, this will require extensive education of all involved, new decisionmaking procedures, and new attitudes.

The Legitimacy Challenge

Finally, and perhaps most significantly, for all its political appeal third-party government may ultimately pose even more serious challenges to popular support of government than did the bureaucratic model before it. Fundamentally, third-party government threatens to fray the link between citizens and the services they receive in return for the taxes they pay. It does so by vesting much of the responsibility for delivering these services in the hands of institutions other than those that voted the programs and raised the revenues for them. Under these circumstances, it is not surprising that citizens might begin to wonder where their taxes are going and what they receive in return.

VI. OBJECTIVES OF THIS BOOK

The purpose of this book is to address these challenges and thus help to resolve the paradox that now confronts public problem solving. To do so, it seeks to develop three bodies of knowledge that are critical to the "new governance" that is now needed:

- First, *tool knowledge*, that is, knowledge about the operating characteristics of the different tools, about the players they engage, and about how they structure the play;
- Second, *design knowledge*, that is, knowledge about how to match tools to the problems being addressed in light of the objectives being sought and the political circumstances that exist; and
- Third, *operating knowledge*, that is, knowledge about how

best to operate the new instruments to achieve these objectives in the most effective fashion.

Structure of the Presentation

To do this, this book is divided into three broad sections:

Overview

In the first place, this introduction and a subsequent concluding chapter are designed to put the "new governance" approach into perspective, to identify its central features, and to explain how it relates to other approaches to public problem solving.

Tool Chapters

The heart of the book consists of a series of chapters focusing on particular tools of public action now in widespread use, both in the United States and around the world. Altogether, fifteen such tools are examined in depth here. As noted in Table 1-11 below, this includes direct tools such as direct government service provision, government corporations, direct loans, economic regulation, and information campaigns; as well as indirect tools such as grants, contracts, tax expenditures, loan guarantees, insurance, social regulation, vouchers, fees and charges, government-sponsored enterprises, and tort law.

TABLE 1-11 ***Tools of Government Action Covered in This Book***

Direct Tools	*Indirect Tools*
Direct government	Social regulation
Government corporations	Contracting
Economic regulation	Loan guarantees
Public information	Grants
Direct loans	Tax expenditures Fees and charges Insurance Tort law Vouchers Government-sponsored enterprises

For each such tool, the discussion below offers a detailed analysis prepared by a leading authority and focusing on a common set of topics. These topics include:

- The *defining features* of the tool, how the tool compares to others in terms of the key tool dimensions identified above (coerciveness, directness, automaticity, and visibility), and what *major design features* and resulting variants of the tool exist;

- The *extent and pattern of tool use*, including recent trends, both in the United States and elsewhere;
- The *mechanics* of tool operations, that is, the tasks that the tool entails, the actors it engages, and the roles these actors are typically called on to play;
- The dynamics of *tool selection*, including the circumstances for which the tool is most appropriate and the political considerations that affect whether it is likely to be selected;
- The *major management challenges* the tool poses and the way they can be handled; and
- The overall *advantages and disadvantages* of the tool for various purposes.

The result is a more comprehensive and thorough body of information on the major tools of government action than has heretofore been available, presented in a readable format, and designed to be accessible to scholars and practitioners alike.

Crosscutting Chapters

In addition to the overview material and the individual tool chapters, this book also includes a set of chapters examining the crucial crosscutting issues that the proliferation of new tools of public action and the growth of third-party government have posed. These include:

- The special *management challenges* of indirect government;
- The problem of *cost accounting* in third-party arrangements, where fixed costs have to be allocated among multiple activities;
- The more general *accountability challenge* that indirect government poses and the ways it can be addressed;
- The *politics* of tool choice;
- The impact of third-party government on *democratic governance and citizen attachment* to the political system; and
- The *international experience* with alternative tools of public action.

Tools Workbooks

Finally, to supplement the discussion here, a series of *Workbooks* has been prepared on the major tools. These workbooks contain documentary materials that help illustrate how particular tools operate. Each focuses on a particular program embodying a tool and includes materials such as the following:

- The basic authorizing language for the program
- Key facets of the legislative history surrounding the program
- The regulations issued to implement the program
- Key program management documents (e.g., sample Requests for Proposals, proposal rating sheets)
- Study questions to direct attention to key decisions that had to be made in structuring the tool for use in the program

Access to this workbook material is available through the Internet at http://www.jhu.edu/~ccss/toolsworkbooks.

VII. CONCLUSION

A new era of public problem solving has dawned in the United States and many other parts of the world. Instead of relying exclusively on government to solve public problems, a host of other actors are being mobilized as well, sometimes on their own initiative, but often in complex partnerships with the state. In this new setting, traditional notions of public and private responsibilities are being turned on their heads and traditional conceptions of public administration rendered largely obsolete.

To cope with this new reality, a new paradigm, a new conceptualization, is needed, one that acknowledges the complex networks of interaction that now characterize our efforts to deal with public problems, that appreciates the strengths these networks can mobilize, but that also recognizes the challenges they entail.

We have argued that what we have called the new governance provides such a conceptualization. The new governance focuses our attention on the wide array of tools now being used to address public problems and on the diverse collection of institutions being activated in the process. In doing so, it alerts us to the increased substitution of complex networks of organizations for the rigid hierarchies of old to solve public problems and to the resulting need for enablement skills rather than simple management skills to cope with the resulting interdependencies. Far from simplifying the tasks of policy management, the new governance thus emphasizes the increased difficulties it now entails.

The new governance thus is a realistic framework for public decisionmaking even while it is an optimistic one. It celebrates the proliferation of tools of public action and the resulting activation of new partners for "public work," while squarely acknowledging the challenges this creates. More than that, it offers concrete insights into the operational requirements that these various tools impose. The result, we hope, will be a better basis both for public understanding of the way the public sector works and for improving the effectiveness with which we address public problems. That, at any rate, is our goal.

NOTES

1. Robert A. Dahl and Charles E. Lindblom, *Politics, Economics, and Welfare: Planning and Politico-Economic Systems Resolved into Basic Social Processes* (New York: Harper and Row, 1953), 6, 16.

2. World Bank, *World Development Report 1997: The State in a Changing World* (New York: Oxford University Press, 1997), 1.

3. World Bank, *World Development Report 1997: The State in a Changing World* (1997), 1–3; Marcel Masse, "Economic, Political, and Technological Pressures Shaping Public Sector Reform," *Proceedings of the Canada-South East Asia Colloquium*

on Transforming the Public Sector (Ottawa, Canada: Institute on Governance, 1993); Donald Kettl, “The Global Revolution in Public Management: Driving Themes and Missing Links,” *Journal of Policy Analysis and Management* 16, no. 3 (1997): 446–462; Tim Plumptre, “Public Sector Reform: An International Perspective,” *Proceedings of the Canada-South East Asia Colloquium: Transforming the Public Sector* (Ottawa, Canada: Institute on Governance, 1993); C. Pollitt, *Managerialism and the Public Service* (Oxford: Basil Blackwell, 1990).

4. Shahid J. Burki and Guillermo E. Perry, *Beyond the Washington Consensus: Institutions Matter*, World Bank Latin American and Caribbean Studies Viewpoints (Washington, D.C.: World Bank, 1998).

5. Included here is the “new institutionalism” associated with the work of Oliver Williamson and the public choice theories associated with the work of Gordon Tullock. See Oliver Williamson, *Markets and Hierarchies* (New York: Free Press, 1975); Gordon Tullock, *The Politics of Bureaucracy* (Washington, D.C.: Public Affairs Press, 1965). For excellent summaries of these theories and their application to public bureaucracy see Terry Moe, “The New Economics of Organization,” *American Journal of Political Science* 28 (November 1984): 739–777; and

Gerald Garvey, *Facing the Bureaucracy* (San Francisco: Jossey-Bass, 1993), 25–35.

6. David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector* (Reading, MA: Addison-Wesley, 1992), 48.

7. H. Brinton Milward and Keith G. Provan, "Measuring Network Structure," *Public Administration* 76 (summer 1998): 387–407.

8. For an interesting analysis of the impact of America's "nonstate" tradition on the development of public administration in the United States, see Richard J. Stillman, *Preface to Public Administration: A Search for Themes and Direction*, 2d ed. (Burke, VA: Chatelaine Press, 1999).

9. Donald Kettl, *Sharing Power: Public Governance and Private Markets* (Washington, D.C.: The Brookings Institution, 1993), 4.

10. Lester M. Salamon, *Partners in Public Service: Government-Nonprofit Cooperation in the Modern Welfare State* (Baltimore: Johns Hopkins University Press, 1995), 88.

11. For a description of the Netherlands case, see Ralph Kramer, *Voluntary Agencies in the Welfare State* (Berkeley: University of California Press, 1981), 19–36.

12. For a comparison of the German and U.S. systems, see

Lester M. Salamon and Helmut K. Anheier, “The Third Route: Government-Nonprofit Collaboration in Germany and the United States,” *Private Action and the Public Good*, eds. Walter W. Powell and Elisabeth S. Clemens (New Haven: Yale University Press, 1998), 151–162.

13. Claire Ullman, “Partners in Reform: Nonprofit Organizations and the Welfare State in France,” in *Private Action and the Public Good*, eds. Powell and Clemens (1998), 163–176.

14. Lester M. Salamon et al., *Global Civil Society: Dimensions of the Nonprofit Sector* (Baltimore: Johns Hopkins Institute for Policy Studies, 1999), 14.

15. See, for example, Jeffrey L. Pressman and Aaron B. Wildavsky, *Implementation* (Berkeley: University of California Press, 1973); D. Kettl, *Sharing Power* (1993), 4–5.

16. For a useful summary of this conventional wisdom, see Vincent Ostrom, *The Intellectual Crisis of Public Administration* (University: University of Alabama Press, 1973).

17. Barton and Chappell, *Public Administration: The Work of Government* (1985), quoted in Richard Stillman, *Preface to Public Administration* (1999), 150.

18. Erwin Hargrove, “The Missing Link: The Implementation Challenge in Policy Research,” working paper (Washington,

D.C.: Urban Institute Press, 1975). A considerable body of "implementation" literature has emerged in more recent years, but, as noted below, it has not systematically come to terms with the array of new tools of public action either. See note 28 below.

19. See, for example, Mohan Kaul, "The New Public Administration: Management Innovations in Government," *Public Administration and Development* 17, nos. 13–26 (1997); Andrew Massey, *Managing the Public Sector: A Comparative Analysis of the United Kingdom and the United States* (Aldershot, U.K.: Edward Elgar, 1993); Osborne and Gaebler, *Reinventing Government* (1992); Owen E. Hughes, "New Public Management," in *International Encyclopedia of Public Policy and Administration*, ed. Jay M. Shafritz (Boulder: Westview Press, 1998), 1489–1490.

20. Robert Dahl and Charles E. Lindblom, *Politics, Economics, and Welfare* (1953), 8.

21. Frederick C. Mosher, "The Changing Responsibilities and Tactics of the Federal Government," *Public Administration Review AO* (November/December 1980): 541–548.

22. Lester M. Salamon, "The Rise of Third-Party Government," *Washington Post* (29 June 1980); and Lester M.

Salamon, “Rethinking Public Management,” *Public Policy* 29, no. 1 (summer 1981): 255–575.

23. See, for example, Christopher C. Hood, *The Tools of Government* (Chatham, NJ: Chatham House Publishers, 1983); Stephen H. Linder and B. Guy Peters, “From Social Theory to Policy Design,” *Journal of Public Policy* 4, no. 3 (1984): 237–259; Lorraine M. McDonnell and Richard F. Elmore, “Getting the Job Done: Alternative Policy Instruments,” *Educational Evaluation and Policy Analysis* 9, no. 2 (summer 1987): 133–152; Stephen H. Linder and B. Guy Peters, “Instruments of Government: Perceptions and Contexts,” *Journal of Public Policy 9*, no. 1 (1989): 35–58; Donald Kettí, *Government by Proxy: (Mis?) Managing Federal Programs* (Washington, D.C.: Congressional Quarterly Press, 1988); Lester M. Salamon, ed., *Beyond Privatization: The Tools of Government Action* (Washington, D.C.: Urban Institute Press, 1989); Anne Schneider and Helen Introduction Ingram, “Behavioral Assumptions of Policy Tools,” *Journal of Politics* 52, no. 2 (May 1990): 510–529; Marie-Louise Bemelmans-Videc, Ray C. Rist, and Evert Vedung, eds., *Carrots, Sticks and Sermons: Policy Instruments and Their Evaluation* (New Brunswick, NJ: Transaction Publishers, 1998). Beyond this, some individual

tools have attracted considerable attention. For example, the tool of grants-in-aid has been thoroughly examined in a series of publications produced by the Advisory Committee on Intergovernmental Relations during the 1970s and early 1980s and in U.S. Office of Management and Budget, *Managing Federal Assistance in the 1980s* (Washington, D.C.: 1983). “Regulation” has been examined as a tool of public action in a number of studies, including Charles Schultze, *The Public Use of Private Interest* (Washington, D.C.: The Brookings Institution, 1977); and Neil Gunningham, Henry Grabosky, and Darren Sinclair. *Smart Regulation: Designing Environmental Policy* (Oxford: Oxford University Press, 1998).

24. Beverly Cigler, “A Sampling of Introductory Public Administration Texts,” *Journal of Public Affairs Education* 6, no. 1 (January 2000): 48, 51. For evidence that some headway is being made, see David L. Weimer and Aidan R. Vining, *Policy Analysis: Concepts and Practice*, 3d ed. (Upper Saddle River, N.J.: Prentice-Hall, 1999), 196–252; and H. G. Frederickson, *The Spirit of Public Administration* (San Francisco: Jossey-Bass, 1997), 4–11, 78–96.

25. Salamon, *Beyond Privatization* (1989).

26. I am indebted to George Frederickson for his suggestion

to use the term "governance" to depict what I earlier termed the "tools approach" to public problem solving. Frederickson uses the term "governance" to refer to a broader array of phenomena than is intended by the term here—namely, the processes of policy formation as well as implementation. The central idea of multiple stakeholders involved in the task of governing remains the same, however. As noted below, I have added the term "new" to the term "governance" to suggest a greater consciousness about the consequences of choices among tools and accompanying actors. See George Frederickson, *The Spirit of Public Administration* (1997), 78–96.

27. For a succinct summary of the classical theory see Ostrom, *The Intellectual Crisis in Public Administration* (1989), 20–41; Garvey, *Facing the Bureaucracy* (1993), 18–23. Similar concerns also lay behind the European development of administrative theory, as reflected in the work of Max Weber; Stillman, *Preface to Public Administration* (1999), 109–123.

28. For a vigorous defense of the American administrative state, see Charles Goodsell, *The Case for Bureaucracy: A Public Administration Polemic*, 3d ed. (Chatham, N.J.: Chatham House Publishers, 1994). For a discussion of the continuing vitality of "direct government" as a tool of government action, see

Chapter 2 by Christopher Leman.

29. This line of argument also was evident in the public administration literature more generally. See, for example, Ostrom, *The Intellectual Crisis of American Public Administration* (1989).

30. See, for example, Pressman and Wildavsky, *Implementation* (1973); Hargrove, *The Missing Link* (July 1975); Donald S. Van Meter and Carl E. Van Horn, “The Policy Implementation Process: A Conceptual Framework,” *Administration and Society* 6, no. 1 (February 1975), 447–474; Eugene Bardach, *The Implementation Game: What Happens after a Bill Becomes a Law* (Cambridge, Mass.: MIT Press, 1977); Walter Williams, *The Implementation Perspective: A Guide for Managing Social Service Delivery* (Berkeley: University of California Press, 1980); Robert T. Nakamura and Frank Smallwood, *The Politics of Policy Implementation* (New York: St. Martin’s Press, 1980); Daniel Mazmanian and Paul Sabatier, *Implementation and Public Policy* (Glencoe, III.: Scott, Foresman, 1983).

31. Implementation studies have generated numerous lists of factors thought to influence program success but with limited progress in cumulating these findings into a more generalizable body of theory. One attempt to summarize this literature

identifies no fewer than seventeen such factors that have so far been identified and need to be taken into account. Included here are such factors as the clarity of the law, the adequacy of the causal theory embodied in it, the multiplicity of decisions points, the characteristics of the implementing agencies, the presence of an implementation entrepreneur, and the adequacy of external review. Mazmanian and Sabatier, *Implementation and Public Policy* (1983). For a general discussion of the limited success of implementation studies in generating testable theory, see Helen Ingram, "Implementation: A Review and Suggested Framework," in *Public Administration: The State of the Discipline*, eds. Naomi B. Lynn and Aaron Wildavsky (Chatham, N.J.: Chatham House Publishers, 1990), 463; Calista, "Policy Implementation," in *Encyclopedia of Policy Studies,* ed. Stuart Nagel (New York: Marcel Dekker, 1994), 118.

32. Michael Howlett, "Policy Instruments, Policy Styles, and Policy Implementation: National Approaches to Theories of Instrument Choice," *Policy Studies Journal* 19, no. 2 (spring 1991): 1–21.

33. For a discussion of these theories, see Moe, "The New Economics of Organization" (1984), 762–768; Garvey, *Facing the Bureaucracy* (1993), 26–33.

34. E. S. Savas, *Privatization: The Key to Effective Government* (Chatham, N.J.: Chatham House Publishers, 1987); Stuart Butler, *Privatizing Federal Spending: A Strategy to Eliminate the Deficit* (New York: Universe Books, 1985).

35. S. J. Burki and G. E. Perry, *Beyond the Washington Consensus,* 125. Osborne and Gaebler, *Reinventing Government* (1998), 20. For a general discussion of the new public management agenda of which the reinventing government perspective is a part, see Kaul, "The New Public Administration" (1997), 13–26; Larry Terry, "Administrative Leadership, Neo-Managerialism, and the Public Management Movement" 58, no. 3 (May/June 1998): 194–2000; Hughes, "New Public Management," (1998), 1490; Chrisopher Pollitt, *Managerialism and the Public Services: Cuts or Cultural Change in the 1990s* (London: Blackwell, 1993).

36. Moe, "New Economics of Organization" (1984), 749–757; John W. Pratt and Richard J. Zeckhauser, "Principals and Agents: An Overview," in *Principals and Agents: The Strategy of Business,* eds. John W. Pratt and Richard J. Zeckhauser (Cambridge, Mass.: Harvard Business School Press, 1991 [1985]).

37. J. A. de Bruijn and E. F. ten Heuvelhof, "Instruments for

Network Management," in *Managing Complex Networks: Strategies for the Public Sector*, eds. Walter J. M. Kickert, Erik-Hans Klijn, and Joop F. M. Koppenjan (London: Sage Publications, 1997), 122–123.

38. W. J. M. Kickert, E.-H. Klijn, and J. F. M. Koppenjan, "Introduction: A Management Perspective on Policy Networks," in *Managing Complex Networks*, eds. Walter J. M. Kickert, Erik-Hans Klijn, and Joop F. M. Koppenjan (1997), 33.

39. Ronald Moe, "Exploring the Limits of Privatization," *Public Administration Review* (November/December 1987): 453–460.

40. As Ronald Reagan put it in 1981, "We have let the state take away the things that were once ours to do voluntarily." For further discussion of this perspective as it applies to the nonprofit sector, see Lester M. Salamon and Alan J. Abramson, "The Nonprofit Sector," in *The Reagan Experiment*, eds. John L. Palmer and Isabel V. Sawhill (Washington, D.C.: Urban Institute Press, 1982), 223–224.

41. For a discussion of the theoretical basis for government-nonprofit cooperation in these terms, see Lester M. Salamon, *Partners in Public Service* (1995), 33–49.

42. See, for example, James Austen, *The Collaboration*

Challenge: How Nonprofits and Businesses Succeed through Strategic Alliances (San Francisco: Jossey-Bass, 2000); Reynold Levy, *Give and Take: A Candid Account of Corporate Philanthropy* (Cambridge, Mass.: Harvard Business School Press, 1999).

43. See, for example, Schultze, *The Public Use of Private Interest* (1977).

44. Kettl, *Sharing Power* (1993), 6. See also Robert W. Bailey, "Uses and Misuses of Privatization," in *Prospects for Privatization: Proceedings of the American Academy of Political Science*, ed. Steve Hanke, 36, no. 3 (1987), 150.

45. Burki and Perry, *Beyond the Washington Consensus: Institutions Matter* (1998).

46. World Bank, *World Development Report* (Washington, D.C.: World Bank Group, 1997), 1.

47. Dennis Rondinelli, "Privatization, Governance, and Public Management: The Challenges Ahead," *Business and the Contemporary World* 10, no. 2 (1998), 167.

48. Negotiation and persuasion operate within administrative agencies as well, of course. In the new governance, however, they are clearly the dominant form of management action.

49. Luther Gulick, "Notes on the Theory of Organization," in

Papers on the Science of Administration, eds. Luther Gulick and Lyndall Urwick (New York: Institute for Public Administration, 1937), 13.

50. See, for example, Hughes, "New Public Management" (1998), 1489–1490; Christopher Pollitt, *Managerialism and the Public Service* (1993), 6–10.

51. W. J. M. Kickert and J. F. M. Koppenjan, "Public Management and Network Management: An Overview," in *Managing Complex Networks*, eds. Kickert et al. (1997), 50.

52. See, for example, Ruth Hoogland DeHoog, "Human Service Contracting: Environmental, Behavioral, and Organizational Conditions," *Administration and Society* 16 (1985), 427–454.

53. For a discussion of such civic initiatives, see Carmen Sirianni, *Civic Innovation in America: Community Empowerment, Public Policy, and the Movement for Civic Renewal* (Berkeley: University of California Press, 2001).

54. Edward Skloot, "Privatization, Competition, and the Future of Human Services," Unpublished paper prepared for delivery at the Council on Foundations Conference, New Orleans (21 April 1999).

55. Eugene Bardach and Robert A. Kagan, *Going by the Book:*

The Problem of Regulatory Unreasonableness: A Twentieth Century Fund Report (Philadelphia: Temple University Press, 1982), 123–151. Peter May develops this point more fully in Chapter 5.

56. See, for example, Ruth Hoogland DeHoog, "Competition, Negotiation, or Cooperation: Three Models for Service Contracting," *Administration and Society 22,* no. 3 (November 1990): 317–340.

57. Michael Lipsky, *Street-Level Bureaucracy* (New York: Russell Sage Foundation, 1980).

58. This definition is quite similar to that suggested by Evert Vedung, who defines public policy instruments as "the set of techniques by which governmental authorities wield power in attempting to ensure support and effect or prevent social change." Evert Vedung, "Policy Instruments: Typologies and Theories," in *Carrots, Sticks, and Sermons,* eds. Bemelmans-Videc et al. (1998), 21.

59. This usage is close to that suggested by the "new institutionalism," particularly in economics. As economic historian Douglas North puts it, institutions are "regularities in repetitive interactions … customs and rules that provide a set of incentives and disincentives for individuals." Douglas North,

"The New Institutional Economics," *Journal of Institutional and Theoretical Economics* 142 (1986): 231. For a broader discussion of the "new institutionalism," see Walter W. Powell and Paul J. DiMaggio, "Introduction," in *The New Institutionalism in Organizational Analysis*, eds. Walter W. Powell and Paul J. DiMaggio (Chicago: University of Chicago Press, 1991), 1–40.

60. For an argument that the difference between "block grants" and "categorical grants" is not sufficientiy great to warrant treating them as different tools, see Paul E. Peterson, Barry G. Rabe, and Kenneth K. Wong, *When Federalism Works* (Washington, D.C.: The Brookings Institution, 1986), 21–23.

61. E. S. Savas, *Privatization: The Key to Effective Government*, 62; Osborne and Gaebler, *Reinventing Government*, 21; E. S. Kirschen et al., *Economic Policy in Our Time* (Amsterdam: North Holland Publishing, 1964); Gaebler and Osborne, *Reinventing Government* (1992). For a general discussion of the difficulties of comprehensive and authoritative lists of policy tools, see Linder and Peters, "The Design of Instruments for Public Policy: Groundwork for Empirical Research," in *Policy Theory and Policy Evaluation*, ed. Stuart Nagel (Westport, Conn.: Greenwood Press, 1990), 103–119.

62. Christopher Hood, *The Tools of Government* (1983).

63. McDonnell and Elmore, “Alternative Policy Instruments” (1987), 12.

64. Schneider and Ingram, “Behavioral Assumptions of Policy Tools” (1990), 514–521.

65. Evert Vedung, “Policy Instruments: Typologies and Theories,” in *Carrots, Sticks, and Sermons*, eds. Bemelmans-Videc et al. (1998), 21–52. In the earlier version of this scheme, F. C. J. van der Doelen divided tools into three “families” based on the type of intervention the public sector uses: (1) the legal family, (2) the economic family, and (3) the communications family. See F. C. J. van der Doelen, *Instrumenten voor energiebesparing* (Enschede Netherlands: Universiteit Twente, 1993) cited in J. A. de Bruijn and E. F. ten Heuvelhof, “Instruments for Network Management,” in *Managing Complex Networks*, eds. Kickert et al. (1997). On the general popularity of classifications using the degree of coercion as the central criterion, see Linder and Peters, “The Design of Instruments for Public Policy,” 114.

66. Hans DeBruijn and Hans A. M. Hufen, “The Traditional Approach to Policy Instruments,” in *Public Policy Instruments: Evaluating the Tools of Public Administration*, eds. B. Guy Peters and Frans K. M. van Nispen (Cheltenham, U.K.: Edward Elgar,

1998).

67. Theodore Lowi, "American Business, Public Policy, Case Studies, and Political Theory," *World Politics* 16 (1964): 677–715; Peterson, Rabe, and Wong, *When Federalism Works*, 15–20.

68. Pressman and Wildavsky, *Implementation* (1973), 143.

69. Howlett, "Policy Instruments, Policy Styles, and Policy Implementation," *Policy Studies Journal* 19, no. 2 (1991): 1–21.

70. Anne Larson Schneider and Helen Ingram, *Policy Design for Democracy* (Lawrence: University Press of Kansas, 1997), 5–7, 129–135; Stephen Rathgeb Smith and Michael Lipsky, *Nonprofits for Hire: The Welfare State in the Age of Contracting* (Cambridge, Mass.: Harvard University Press, 1993), 207–211.

71. Linder and Peters, "The Design of Instruments for Policy," 114; Vedung, "Policy Instruments: Typologies and Theories" (1998), 35–36.

72. For a detailed discussion of the types of market failures that serve as rationales for public intervention, see Weimar and Viner, *Policy Analysis* (1999).

73. Charles Schultze, *Public Use of Private Interest* (1977). For a fuller discussion of these market-oriented approaches, see Chapters 5 and 8.

74. Schultze, *Public Use of Private Interest* (1977), 57.

75. On the phenomenon of regulatory capture, see Merver Bernstein, *Regulating Business by Independent Commission* (Princeton: Princeton University Press, 1955).

76. Differences in degree of directness also exist within tool categories. Thus, for example, block grants are more indirect than categorical grants. Similarly, contracts for major military systems are more indirect than contracts for the purchase of easily specified, off-the-shelf products since more discretion has to be left to the contractor in major systems acquisitions.

77. Daniel Elazar, *American Federalism: The View from the States* (New York: Thomas Y. Crowell, 1973), 3.

78. On environmental policy, see Nancy Kubasek, *Environmental Law* (Englewood Cliffs, N.J.: Prentice-Hall, 1990), 124–141. For a discussion of the role that Southern conservative opposition played in the choice of a grant-in-aid with substantial state discretion for the nation's basic welfare program, Aid to Dependent Children, see Lester M. Salamon, *Welfare: The Elusive Consensus* (New York: Praeger, 1976).

79. Salamon and Anheier, "The Third Route: Government-Nonprofit Collaboration in Germany and the United States" (1998), 151–162.

80. See, for example, L. J. O'Toole, K. I. Hanf, and P. L.

Hupe, “Managing Implementation Processes in Networks,” in *Managing Complex Networks*, eds. Kickert et al. (1998), 137.

81. Gordon Chase, “Implementing a Human Services Program: How Hard Will It Be?” *Public Policy* 27 (fall 1979): 385–435.

82. Pressman and Wildavsky, *Implementation* (1973), 143.

83. Pressman and Wildavsky, *Implementation* (1973), 133.

84. Christopher Leman, “Direct Government: The Forgotten Fundamental,” in *Beyond Privatization: The Tools of Government Action*, ed. Lester M. Salamon (1989), 3–38. For an update of this analysis, see Chapter 2.

85. John W. Pratt and Richard J. Zeckhauser, “Principals and Agents: An Overview” (1991), 11. On the importance of coincidence of “worldviews” in potentially minimizing principal-agent problems, see William G. Ouchi, “Markets, Bureaucracies, and Clans,” *Administrative Science Quarterly* 25 (March 1980): 129–140.

86. Regina Herzlinger, *A Managerial Analysis of Federal Income Redistribution Mechanisms: The Government as a Factory, Insurance Company, and Bank* (Cambridge, MA: Ballinger, 1979).

87. Smith and Lipsky, *Nonprofits for Hire* (1993), 207–211; Schneider and Ingram, *Policy Design for Democracy* (1997), 5–7,

129–135. For further elaboration of this point, see Chapter 20.

88. Under the tradable permit system, a target is set for the total amount of pollution permitted in an air quality district, but companies are free to purchase rights to emit pollutants in excess of their fair share from other businesses in the same district. For a more detailed discussion of tradable pollution permits and corrective fees and charges as tools of public action, see Chapter 8.

89. Robert A. Levine, *Public Planning: Failure and Redirection* (New York: Basic Books, 1972), 17, 23.

90. Schultze, *The Public Use of Private Interest* (1977).

91. Levine, *Public Planning* (1972), viii.

92. Herzlinger, *Managerial Analysis*, 111.

93. For an analysis of the administrative challenges entailed in the application of market-based tools to environmental protection, see National Academy of Public Administration, *The Environment Goes to Market: The Implementation of Economic Incentives for Pollution Control* (Washington, D.C.: National Academy of Public Administration, July 1994).

94. Until very recently, in fact, tax expenditures did not show up in the regular budget documents or figure prominently in budget debates. This changed in the early 1990s when

budget agreements stipulated that both tax and spending decisions had to be taken into explicit account when budgetary decisions were made.

95. Most economists would argue, for example, that cash benefits are more efficient than in-kind benefits since they allow beneficiaries to utilize resources where they value them the most. However, in-kind tools such as vouchers and loan guarantees have substantial political advantages since they can often mobilize producer interests in support of particular programs and neutralize opponents who fear that recipients will squander benefits on purposes other than those intended.

96. Consumer-side subsidies such as vouchers and tax expenditures are thought to be more efficient because they allow consumers to shop for the best combination of service and cost. However, producer-side subsidies such as grants and contracts retain the political edge because they are more likely to stimulate producer-side political support.