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

Lester M. Salamon

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 kernel of rational social action in the Western world.

—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.

—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. 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. 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, delayed, 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. 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. . . ."

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 ever 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. 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
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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.6
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 agricul-
ture, 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 partners-
ships.”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 non-
profit 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 rhet-
oric, 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 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

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

<table>
<thead>
<tr>
<th>Field</th>
<th>Nonprofits</th>
<th>For-profits</th>
<th>Government</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social services</td>
<td>56%</td>
<td>4%</td>
<td>40%</td>
<td>100%</td>
</tr>
<tr>
<td>Employment/training</td>
<td>48</td>
<td>8</td>
<td>43</td>
<td>100</td>
</tr>
<tr>
<td>Housing/community development</td>
<td>5</td>
<td>7</td>
<td>88</td>
<td>100</td>
</tr>
<tr>
<td>Health</td>
<td>44</td>
<td>23</td>
<td>33</td>
<td>100</td>
</tr>
<tr>
<td>Arts/culture</td>
<td>51</td>
<td>*</td>
<td>49</td>
<td>100</td>
</tr>
<tr>
<td>All</td>
<td>42%</td>
<td>19%</td>
<td>39%</td>
<td>100%</td>
</tr>
</tbody>
</table>

* 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.

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 semi-autonomous local housing authorities to finance housing provided by private landlords (see Table 1-2).

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

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

redit extended by private tax subsidies that flow to $20 billion takes the form housing authorities to fi-
sion of goods or services activity of the U.S. federal interest payments counted erement amount to only ments of public action—guarantees, government-
a few. Including just the e in 1999 and not the far gh estimate would put the of $2.5 trillion as of fiscal llion in direct activities in all times higher than the . This highlights another

<table>
<thead>
<tr>
<th>TABLE 1-3 Scale of U.S. Federal Government Activity, by Tool of Public Action, Fiscal Year 1999</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Direct government</td>
</tr>
<tr>
<td>Goods and services</td>
</tr>
<tr>
<td>Income support</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Direct loans (obligations)</td>
</tr>
<tr>
<td>Subtotal, Direct</td>
</tr>
<tr>
<td>Indirect government</td>
</tr>
<tr>
<td>Contracting</td>
</tr>
<tr>
<td>Grants</td>
</tr>
<tr>
<td>Vouchers</td>
</tr>
<tr>
<td>Tax expenditures</td>
</tr>
<tr>
<td>Loan guarantees (commitments)</td>
</tr>
<tr>
<td>Government-sponsored enterprises (loans)</td>
</tr>
<tr>
<td>Deposit insurance (net additions)</td>
</tr>
<tr>
<td>Regulation</td>
</tr>
<tr>
<td>Subtotal, Indirect</td>
</tr>
<tr>
<td>GRAND TOTAL</td>
</tr>
<tr>
<td>Budget outlays</td>
</tr>
<tr>
<td>Other activity</td>
</tr>
</tbody>
</table>


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. 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—
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 wider array 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...
linavia. In the Netherlands, communities in the late twentieth century to finance elementary education in the hands of private organizations were enlisted to assist in the early assistance overseas, this being a widespread pattern of the public services delivered, later, ideological lines. The Catholic doctrine of the state to turn first to the various state institutions, a parallel pattern. Even France, highly developed state welfare contracts with private entities, financed largely through private sources.

<table>
<thead>
<tr>
<th>Country</th>
<th>Nonprofit Share of Total Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>12.6%</td>
</tr>
<tr>
<td>Ireland</td>
<td>11.5%</td>
</tr>
<tr>
<td>Belgium</td>
<td>10.5%</td>
</tr>
<tr>
<td>Israel</td>
<td>9.2%</td>
</tr>
<tr>
<td>U.S.</td>
<td>7.8%</td>
</tr>
<tr>
<td>Australia</td>
<td>7.2%</td>
</tr>
<tr>
<td>U.K.</td>
<td>6.2%</td>
</tr>
<tr>
<td>France</td>
<td>4.9%</td>
</tr>
<tr>
<td>Germany</td>
<td>4.9%</td>
</tr>
<tr>
<td>22-Country Average</td>
<td>4.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>4.5%</td>
</tr>
<tr>
<td>Austria</td>
<td>4.5%</td>
</tr>
<tr>
<td>Argentina</td>
<td>3.7%</td>
</tr>
<tr>
<td>Japan</td>
<td>3.5%</td>
</tr>
<tr>
<td>Finland</td>
<td>3.0%</td>
</tr>
<tr>
<td>Peru</td>
<td>2.4%</td>
</tr>
<tr>
<td>Colombia</td>
<td>2.4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.2%</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>1.7%</td>
</tr>
<tr>
<td>Hungary</td>
<td>1.3%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>0.9%</td>
</tr>
<tr>
<td>Romania</td>
<td>0.6%</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

![Figure 1-1](image-url) **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.*

In the current era it is mostly government's third-party partners that take the action instead.

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 worldview.

Even the "new public management" and the "reinventing government" movement that 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. 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." 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. The present author at around the same time proposed a newly new focus for public management training and research concentrating on the distinctive tools or instruments through which the public sector increasingly operates.

Despite some useful progress in formulating such a "tools framework," 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.

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. 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. 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 sec-
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 unchallenged 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

<table>
<thead>
<tr>
<th>Table 1-4: The New Governance Paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classical Public Administration</td>
</tr>
<tr>
<td>------------------------------------</td>
</tr>
<tr>
<td>Program/agency</td>
</tr>
<tr>
<td>Hierarchy</td>
</tr>
<tr>
<td>Public vs. private</td>
</tr>
<tr>
<td>Command and control</td>
</tr>
<tr>
<td>Management skills</td>
</tr>
</tbody>
</table>
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. 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.

While these ideas have provided a workable framework for the development of a relatively successful administrative apparatus in the American context, however, 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. 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. 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.

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. A strong pro-market 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. 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.”

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. Re-inventers 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. 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
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"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 equi-
librium 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,
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 num-
erous 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 interde-
dence. 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 demand-

- 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. 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.

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. 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. 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.
From 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 cord 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.45

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."46 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.47 "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."48 In fact, even the process of privatization itself has been found to require "strong political commitment and effective public management."49

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.50

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. 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.

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. 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, and similar problems have confronted loan guarantee programs as well. Those ultimately responsible for program success therefore often find themselves in the unaccustomed position 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 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. 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.”
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**Orchestration Skills**

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. 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 *enoughmanship*—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. Similar notions
are also evident in endorsements of new types of contracting stressing cooperation as opposed to classic competitive bidding. Instead of narrowing the range of administrative discretion left to the "street-level bureaucrat," 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. Several features of this definition are particularly notable:

- 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). 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. External 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
The concept of a tool of public action is quite complex. Any given tool may be engaged in providing the product/activity, the vehicle, and the delivery system. Table 1-5 illustrates the various types of tools that exist.

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

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.

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. 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). 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. 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. 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. Given this diversity, some analysts have begun to question whether the concept of a policy tool is rigorous enough to support any serious analysis.

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. 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. 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. 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. 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...
and ensure equal opportunity between distributive programs of recipients; and redistributive ed. Some tools might be more

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tify more precisely which tool efore how best to classify tool dimension that can work for all need for a range of dimension ed. Tools can differ from each rs. Only in this way will it be makers face and the significant 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. 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 set social roles. Such deviations are commonly viewed by economists as inappropriate except where "market imperfections" make them imperative.

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.

<table>
<thead>
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<th>Box 1.2 Coercion</th>
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<tr>
<td>Coercion measures the extent to which a tool restricts individual or group behavior as opposed to merely encouraging or discouraging it.</td>
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</table>
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

<table>
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<th>Degree of Coerciveness</th>
<th>Illustrative Tools</th>
<th>Likely Impacts</th>
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<tbody>
<tr>
<td>Low</td>
<td>Tort liability Information, Tax expenditures</td>
<td>Effectiveness: Low, Efficiency: Moderate, Equity: Low, Manageability: Moderate, Legitimacy/Political Support: High</td>
</tr>
<tr>
<td>High</td>
<td>Economic regulation, Social regulation</td>
<td>Effectiveness: High, Efficiency: High/Low, Equity: High, Manageability: Low, Legitimacy/Political Support: High/Low</td>
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cive the tool, the more effective results, as shown in Table 1, these tools give governments deviate from specified procedures in operating them since much of this, these tools are also more eager to engage government in

and environmental movements, and-control regulatory arrangements against the use of this tool, entrenched interests, advocates for minimum certainty that the goals of these tools, even when backed by provide this assurance.

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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.”

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.”

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 seek some modus vivendi with the affected interests. The result is the well-known phenomenon of “agency capture” by those it is seeking to control.

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 con-