TABLE 1-7 Patterns of Public Problem Solving

<table>
<thead>
<tr>
<th></th>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery</td>
<td>A</td>
<td>C</td>
</tr>
<tr>
<td>Public</td>
<td>(1) National</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2) State/local</td>
<td></td>
</tr>
<tr>
<td>Private</td>
<td>B</td>
<td>D</td>
</tr>
<tr>
<td>(1) Nonprofit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) For-profit</td>
<td></td>
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</tbody>
</table>

connected to a private system of finance. Thus, for example, a public agency can charge a user fee for the services it provides, in which case the finance is private but the delivery public (Cell C of Table 1-7). Alternatively, special tax advantages can be provided for private purchases of services such as day care (Cell D of Table 1-7). All of these are forms of public action in the sense that they engage governmental authority, but each utilizes this authority in a different way and for a different part of the process.

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

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

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

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

In classical public administration, a distinction between direct and indirect tools makes little sense since it is taken for granted that a publicly authorized and funded program should be carried out by a duly constituted, and staffed, public agency. Yet, as we have seen, much of the growth of government action over the last half century, especially in the United States, has taken place through indirect tools—such as grants, loan guarantees, tax expenditures, vouchers, and indirect regulation. The result, as noted earlier, is an elaborate system of “third-party government” that vests a substantial portion of the discretionary authority over the spending of public funds and the operation of public programs in the hands of a variety of third-party partners. Indeed, many tools that operate directly in other countries take a more indirect form in the

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

<table>
<thead>
<tr>
<th>Degree of Directness</th>
<th>Illustrative Tools</th>
<th>Effectiveness</th>
<th>Efficiency</th>
<th>Equity</th>
<th>Manageability</th>
<th>Legitimacy/Political Support</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low</strong></td>
<td>Tort liability</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Grants</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>Loan guarantees</td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Government-sponsored enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vouchers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>Tax expenditures</td>
<td>Low/Med.</td>
<td>Medium</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Contracting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social regulation</td>
<td></td>
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<td></td>
<td>Labeling requirements</td>
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<tr>
<td></td>
<td>Corrective taxes/charges</td>
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<td></td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>Insurance</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>Direct loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Economic regulation</td>
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<td></td>
<td>Public information</td>
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<tr>
<td></td>
<td>Government corporations</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Direct government</td>
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</tbody>
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American context. Thus, for example, many European countries rely on public enterprise to handle the natural monopolies that often exist in public utility industries (e.g., electricity, telephones), whereas the United States tends to leave these businesses in private hands and subject them to economic regulation. The United States has also used more indirect approaches in its social regulatory programs in such areas as the environment, worker safety, and health. While establishing national standards, these programs leave much of the responsibility for implementation in the hands of state and local governments and those being regulated.

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

- By using a cost-based reimbursement “voucher” whose proceeds flowed to existing hospitals, it was possible to defuse the medical community’s opposition to the creation of the federal Medicare program in the 1960s;
- By relying on loan guarantees instead of direct loans, it was possible to neutralize commercial bank opposition to federal involvement in home mortgage lending in the 1930s; and
- By using grants and purchase-of-service contracts, it was possible to enlist research universities to support the expansion of federal involvement in scientific research, and private nonprofit organizations to support the expansion of federal involvement in social services for the poor.

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

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

The political advantages of indirect tools are not their only benefits, however. At least three other benefits are often claimed for them:
countries rely on public enter-
prise and public utility industries (e.g.,
] to leave these businesses in
The United States has also
reregrained such areas as the
ing national standards, these
\nation in the hands of state
ment appears to be the political
rect tools provide important
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actment stage to the imple-
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The use of indirect tools is
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ition is increasingly common
subsidarity,”79 by a growing
obes about the capabilities
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ority to act on their own.80
only benefits, however. At

- First, indirect tools can inject a useful degree of competition into the provision of public services, breaking the monopoly of governmental agencies and thereby potentially improving service quality and “customer orientation.”

- Second, indirect tools can provide access to talents and resources that are desperately needed to cope with complex public problems, but that public agencies may not command. These include technical talents (e.g., university researchers, private service providers, loan officers) as well as financial and physical resources (existing facilities, charitable contributions). Indirect tools therefore can extend the reach of public agencies, making it possible for them to avoid costly start-up problems and maximizing the energies that can be brought to bear on public problems.

- Finally, indirect tools offer a greater degree of flexibility, making it easier for government to experiment, to change course when needed, and thus to remain responsive to new needs. This is so because the authorizing government does not have to create the entire administrative structure to operate an initiative.

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

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

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

- It permits a more creative reward structure to induce agents to pursue the principal’s objectives.

- It helps convey the expectation that all involved should work to a common purpose.

- It may help diminish the losses associated with breakdowns and delays in bargaining.

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

Not only does the directness of tools have implications for the overall effectiveness of programs, it also may have particular implications for their ability to promote equity and redistribution goals. This is especially the case where the partners brought into the operation of a public program by a tool lack incentives to achieve these equity goals. Yet, this is often the case with private businesses. As management theorist Regina Herzlinger has pointed out, “when resources are given to providers who in turn have the discretion to allocate the goods and services they produce . . . [the] providers will try to attract consumers who will improve their measurable performance.”

In the process, however, redistributive goals may be sacrificed as producers engage in “creaming” to attract better-off clients. While public agencies themselves are hardly immune from these pressures, the risks appear greater with indirect tools.

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

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

**Automaticity**

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

**Box 1.4 Automaticity**

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

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

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

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

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

Economist Charles Schultze reached a similar conclusion in his pioneering 1977 analysis of regulatory programs, criticizing prevailing regulatory approaches as inherently inefficient because they utilize command and control techniques rather than re-

<table>
<thead>
<tr>
<th>TABLE 1.9 Policy Tools Grouped by Degree of Automaticity</th>
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</thead>
<tbody>
<tr>
<td><strong>Degree of Automaticity</strong></td>
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<tr>
<td>----------------------------</td>
</tr>
<tr>
<td>Low</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Medium</td>
</tr>
<tr>
<td>High</td>
</tr>
</tbody>
</table>

- be differentiated is the level extent to which a tool utilizes rather than creating its own
- he market, for example, are would include corrective fees tradable permit system au-
- Clean Air Act Amendments.
- example of a market-based raising power in the hands of rather than the institutions hers equip these beneficiariesive mechanism to select the
- mobilized to carry out public ivate credit system, the courtments and private, nonprofit important options exist for them rather than having to
lying on the automatic mechanisms of the market to promote public objectives. Instead of prescribing what antipollution devices polluters must install to clear the nation’s rivers, for example, Schultze recommends making “public use of private interest” by imposing effluent charges that would give polluters an economic incentive to find the lowest-cost way to meet environmental goals. 20

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

For all their appeal, however, automatic tools have proved in practice to fall significantly short of their promise. For one thing, there is reason to question how effective they are. The great advantage of automatic tools is that they make it possible to enlist existing systems in the pursuit of new objectives. However, this advantage is also the source of serious problems since these systems typically have their own objectives and dynamics. There is always a question, therefore, whether the public objectives will redirect the existing system or the existing system will co-opt, and distort, the public objectives. After all, it is the failure of the existing systems that often necessitates public involvement in the first place. For example, the demands for environmental and safety regulation grew directly out of disappointments with the effectiveness of tort law and the court system to handle consumer and environmental problems.

The effectiveness of automatic tools thus depends on identifying the incentives that can turn existing systems to desired public purposes. In practice this has proved to be more difficult than often assumed. Economist Robert Levine, for example, acknowledged “the hard barrier of our lack of knowledge about what incentives work for officials of local government...” 21 The incentive structures of for-profit businesses are presumably easier to fathom, but even here complications arise. Contracting, for example, is assumed to be a fairly automatic tool because of its reliance on the private market. However, this assumes that a competitive market actually exists for the goods and services needed to address public problems. In fact, however, this critical prerequisite is often lacking in government contracting since government is often in the position of purchasing goods and services that are not generally available on the open market (e.g., military aircraft) in markets where the number of suppliers is highly constricted. Complicating matters further is the fact that the desired outputs in public programs are often difficult to specify and then to achieve (e.g., getting the most disadvantaged welfare recipients into permanent jobs). As management specialist Regina Herzlinger has noted, this makes it extremely difficult to “structur[e] enforceable contracts with the private sector” and to exercise the control function that such contracts require. 22

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

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

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

**Visibility**

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

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

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

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

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

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

<table>
<thead>
<tr>
<th>Degree of Visibility</th>
<th>Illustrative Tools</th>
<th>Effectiveness</th>
<th>Efficiency</th>
<th>Equity</th>
<th>Manageability</th>
<th>Legitimacy/Political Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Economic regulation Social regulation Labeling requirements Insurance Tort liability</td>
<td>N/A Low Low Low High</td>
<td></td>
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<tr>
<td>Medium</td>
<td>Contracting Information campaigns Loan guarantees Tax expenditures</td>
<td>N/A Moderate Moderate Moderate Moderate</td>
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<tr>
<td>High</td>
<td>Direct government Government corporations Grants-in-aid Direct loans Vouchers Corrective taxes/charges</td>
<td>N/A High High Low Low</td>
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</tbody>
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relative invisibility keeps the inefficiencies of these tools from being recognized and addressed.

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

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

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

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

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

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

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

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

The Accountability Challenge

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

The Legitimacy Challenge

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

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

- First, tool knowledge, that is, knowledge about the operating characteristics of the different tools, about the players they engage, and about how they structure the play;
- Second, design knowledge, that is, knowledge about how to match tools to the problems being addressed in light of the objectives being sought and the political circumstances that exist; and
- Third, operating knowledge, that is, knowledge about how best to operate the new instruments to achieve these objectives in the most effective fashion.

Structure of the Presentation

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

Overview

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

Tool Chapters

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

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<th>Table 1-11 Tools of Government Action Covered in This Book</th>
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<td><strong>Direct Tools</strong></td>
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<td>Direct government</td>
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For each such tool, the discussion below offers a detailed analysis prepared by a leading authority and focusing on a common set of topics. These topics include:

- The defining features of the tool, how the tool compares to others in terms of the key tool dimensions identified above (coerciveness, directness, automaticity, and visibility), and what major design features and resulting variants of the tool exist;
- The extent and pattern of tool use, including recent trends, both in the United States and elsewhere;
- The mechanics of tool operations, that is, the tasks that the tool entails, the actors it engages, and the roles these actors are typically called on to play;
- The dynamics of tool selection, including the circumstances for which the tool is most appropriate and the political considerations that affect whether it is likely to be selected;
- The major management challenges the tool poses and the way they can be handled; and
- The overall advantages and disadvantages of the tool for various purposes.

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

Crosscutting Chapters

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

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

Tools Workbooks

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

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

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

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

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

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

NOTES

5. Included here is the “new institutionalism” associated with the work of Oliver Williamson.


work Structure," Public Admin-


ite Markets (Washington, D.C.;

nt-Nonprofit Cooperation in the is, 1995), 88.

ier. Voluntary Agencies in the -36.

iter M. Salamon and Helmut K. en in Germany and the United

and Elisabeth S. Clemens (New


"The Nonprofit Sector" (Baltimore:

vsky, Implementation (Berkeley: 993), 4–5.


.. Government (1985), quoted in

1 Challenge in Policy Research." A considerable body of "imple-

noted below, it has not system-


, and Welfare (1953), 8.

1 Tactics of the Federal Gover-

980), 541–548.

nt," Washington Post (29 June "Public Policy 29, no. 1 (summer

rnment (Chatham, NJ: Chatham "From Social Theory to Policy ine M. McDonnell and Richard its.," Educational Evaluation and nder and B. Guy Peters, "Instru-

Public Policy 9, no. 1 (1989):


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

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


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


31. Implementation studies have generated numerous lists of factors thought to influence program success but with limited progress in cumulating these findings into a more generalizable body of theory. One attempt to summarize this literature identifies no fewer than seventeen such factors that have so far been identified and need to be taken into account. Included here are such factors as the clarity of the law, the adequacy of the causal theory embodied in it, the multiplicity of decisions points, the characteristics of the implementing agencies, the presence of an implementation entrepreneur, and the adequacy of external review. Mazmanian and Sabatier, Implementation and Public Policy (1983). For a general discussion of the limited success of implemen-


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


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

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


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


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

49. Luther Gulick, "Notes on the Theory of Organization," in Papers on the Science of Admin-


"Public AdministrationReview" take away the things that were spective as it applies to the non- "The Nonprofit Sector," in The Washington, D.C.: Urban Institute -nonprofit cooperation in these: 33–49.

g: How Nonprofits and Businesses 2000); Reynold Levy, Give and Mass.: Harvard Business School

re agencies as well, of course. In rm of management action.

1 Papers on the Science of Admin-
ularity of classifications using the degree of coercion as the central criterion, see Linder and Peters, "The Design of Instruments for Public Policy," 114.


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


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

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

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


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


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

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


88. Under the tradable permit system, a target is set for the total amount of pollution permitted in an air quality district, but companies are free to purchase rights to emit pollutants in excess
...central criterion, see Linder and

d Approach to Policy Instruments, ministration, eds. B. Guy Peters and
98).

ase Studies, and Political Theory, g. When Federalism Works, 15-20.

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b Smith and Michael Lipsky, Min-

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and Clans," Administrative Science

Income Redistribution Mechanism" (Cambridge, MA: Ballinger, 1979)

211; Schneider and Ingram, Polici

ration of this point, see Chapter 20;

total amount of pollution permissi

ights to emit pollutants in excess

of their fair share from other businesses in the same district. For a more detailed discussion of

table pollution permits and corrective fees and charges as tools of public action, see Chapter 8.


17, 23.


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

92. Herzlinger, Managerial Analysis, 111.

93. For an analysis of the administrative challenges entailed in the application of market-based

tools to environmental protection, see National Academy of Public Administration, The Environ-

ment Goes to Market: The Implementation of Economic Incentives for Pollution Control (Washing-


94. Until very recently, in fact, tax expenditures did not show up in the regular budget doc-

uments or figure prominently in budget debates. This changed in the early 1990s when budget

agreements stipulated that both tax and spending decisions had to be taken into explicit account

when budgetary decisions were made.

95. Most economists would argue, for example, that cash benefits are more efficient than in-

kind benefits since they allow beneficiaries to utilize resources where they value them the most.

However, in-kind tools such as vouchers and loan guarantees have substantial political advantages

since they can often mobilize producer interests in support of particular programs and neutralize

opponents who fear that recipients will squander benefits on purposes other than those intended.

96. Consumer-side subsidies such as vouchers and tax expenditures are thought to be more

efficient because they allow consumers to shop for the best combination of service and cost.

However, producer-side subsidies such as grants and contracts retain the political edge because

they are more likely to stimulate producer-side political support.